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OCTOBER 13TH–19TH 2007 www.economist.com

# China, beware

The leaders meet, the cities grow, the peasants are left behind

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Full contents | Subscribe
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Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS

BUSINESS
Management
Business Education

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

BOOKS & ARTS
Style Guide

PEOPLE
Obituary

MARKETS & DATA
Weekly Indicators
Currencies
Rankings
Big Mac Index
Chart Gallery

DIVERSIONS
Correspondent's Diary

RESEARCH TOOLS

AUDIO

DELIVERY OPTIONS
E-mail Newsletters
Audio edition
Mobile Edition
RSS Feeds
Screensaver

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## Print Edition October 13th 2007

**On the cover**
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**Previous print editions**
Oct 6th 2007
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Sep 8th 2007
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### The world this week
Politics this week
Business this week
KAL's cartoon

### Leaders
The party congress in China
**China, beware**

British politics
**The emperor's new clothes**

Pakistan
**Farce in Islamabad**

ABN AMRO
**Triple play**

Che Guevara
**A modern saint and sinner**

### Letters
**On Canada, biofuels, saffron, murder rates, lynchings, risk, greens**

### Briefing
Rural China
**Missing the barefoot doctors**

### United States
The candidates: Fred Thompson
**The tall guy from Tennessee**

Libertarian protests
**Live free or get hauled off to prison**

Abortion
**Creative construction**

Maritime disputes
**The lobster wars**

Renewable energy in Alaska
**Steam and surf in the far north**

Baseball
**Ball blues**

Katrina's deaths
**Who's to blame?**

New Jersey
**Panic on the boardwalk**

Lexington
**Compassionate centrism**

### The Americas
Education in Venezuela
**Fatherland, socialism or death**

Nicaragua
**Ortega's crab dance**

Argentina
**The Jewish card**

Canada
**A place apart**

### Asia
China's Communist Party congress
**Still in Mao's shadow**

Tasmania
**Bandicoots, beware!**

Myanmar
**A chink in the armour**

Repression in Yangon
**Waiting for the knock on the door**

### A special report on innovation
**Something new under the sun**
**Revving up**
**Can dinosaurs dance?**
**A dark art no more**
**The love-in**
**The fading lustre of clusters**
**The age of mass innovation**
**Sources and acknowledgments**
**Offer to readers**

### Business
Corporate governance
**Keeping shareholders in their place**

Siemens
**Generation game**

Business television
**Squawk boxes**

Beer mergers
**Another round?**

Outsourcing
**Adding sugar**

Outdoor advertising
**Visual pollution**

Online music
**The slow death of digital rights**

Face value
**Offers refused**

**Corrections: Maltese lire and Vought Aircraft Industries**

### Briefing
The Airbus A380
**The giant on the runway**

### Finance & Economics
Commercial property
**View from the top**

Property in Japan
**Back from the grave**

India's economy
**A Himalayan challenge**

Buttonwood
**It's a Wonderful Mess**

Debt
**Switching off the lites**

Spanish banking
**¡Vamos!**

Economics focus
**A workers' manifesto for China**

### Science & Technology
Medicine
**Blood simple**

The 2007 Nobel science prizes
**It's a knockout**

Space dust

Sri Lanka's Muslims
**Homeless and homesick**

Sumo wrestling
**Heavy petting**

Indonesia and Malaysia
**No brotherly love**

Pakistan's tribal areas
**The war heats up**

## Middle East & Africa

Sudan
**The worsening chaos of Darfur**

Nigeria
**A dressing down**

Niger
**Oasis of defiance**

The Gaza Strip
**A riddle of rockets**

Saudi Arabia
**Law of God versus law of man**

Iraq
**Blackwater in hot water**

Advertisement

## Europe

French foreign policy
**Kouchner's kingdom**

Passport-free travel in Europe
**Burning bridges**

Share scandals in France
**Inside story**

Switzerland's election
**A noisy herd**

The German left
**Troubled times**

Charlemagne
**Europe's despot dilemma**

## Britain

Public finances
**The perils of imprudence**

The British army
**The politics of retreat**

The BBC
**A royal mess**

Nuclear power
**Contaminated ground**

Northern Rock
**Soft-touch regulation** 🇬🇧

Offshore oil
**Two weeks on the ocean wave** 🇬🇧

Technology in teaching
**Top marks** 🇬🇧

Bagehot
**On optimism**

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## International

Muslims and Christians
**Table talk for monotheists**

Civil liberties: freedom of speech
**The tongue twisters**

Advertisement

**Blowing in the wind**

Human evolution
**Hidden charms**

**Correction: kidney transplants**

## Books & Arts

Israel's settlers
**One reason for the absence of peace**

Internet grassroots politics
**The day of the netroots**

Financial mergers
**Class warfare**

Ballet
**An inheritance beyond price**

Photosynthesis
**The shedding of light**

New film
**An atrocity unseen**

## Obituary

**Jim Michaels**

## Economic and Financial Indicators

**Overview**

**Output, prices and jobs**

**The Economist commodity-price index**

**Commitment to development**

**Trade, exchange rates, budget balances and interest rates**

**Markets**

**Global business barometer**

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# Politics this week

Oct 11th 2007
From The Economist print edition

EPA

The electoral college in **Pakistan** re-elected General Pervez Musharraf to another five-year term as president. However, opposition parties quit the federal and provincial assemblies that form the electoral college, and the Pakistan People's Party, the country's largest, abstained. Casting further doubt on the legitimacy of the election, the Supreme Court ruled that General Musharraf could not be declared the winner until it issued its judgment on whether he was eligible to be a candidate while still holding the post of army chief. See article

The election coincided with an outbreak of fierce fighting in the tribal area of **Waziristan**, bordering Afghanistan, between the Pakistani army and pro-Taliban militants. See article

In a serious setback to the peace process in **Nepal**, an election next month to choose a constituent assembly to write a new constitution was indefinitely postponed. Former Maoist rebels, now part of the interim government, want a change in the voting system and the abolition of the monarchy before the vote takes place.

The junta ruling **Myanmar** appointed a general viewed as a moderate to act as go-between with Aung San Suu Kyi, the leader of the opposition, who is under house arrest. Her party, the National League for Democracy, has rejected the junta's conditions for starting a dialogue, which include her dropping her support for international sanctions against the regime. Yangon, the main city, remained under curfew, but daily life resumed after the recent protests and their violent suppression. See article

In **India**, the Congress party, which heads the governing coalition, failed to resolve its dispute with its Communist allies over its deal on civilian-nuclear co-operation with America. The coalition relies on the Communist parties for a parliamentary majority, and there is speculation about an early general election.

## More desperation in Darfur

Violence increased in **Darfur**, Sudan's western province, worsening the prospects for a peace conference due to take place in Libya at the end of the month. After ten African Union peacekeepers were killed by unknown assailants, probably rebels, a nearby town was razed, making thousands more Darfuris homeless. The Sudanese government was suspected of complicity. See article

The **Saudi** government said it would reform its legal system by, among other things, setting up a supreme court and special tribunals for labour and commercial disputes. See article

The **Palestinian** president, Mahmoud Abbas, publicly raised the possibility of altering the 1967 borders between Israel and a future Palestinian state, which he said must cover the same amount of land the Palestinian territories had before the war of 1967.

An **Iraqi** government report said that an American private security firm, Blackwater, should pay $136m to compensate families for the killing of 17 Iraqi civilians in Baghdad last month. The firm says its men fired in self-defence. See article

Bill Gates announced another $100m for his foundation's Grand Challenges initiative to encourage innovative research projects intended to promote **global health**. That is in addition to $450m that has already been earmarked. The new money will be aimed at small, early-stage projects.

## The latest stage

America's **Republicans** held another debate. It was the first to be attended by Fred Thompson (left), who formally entered the race for president last month. The other highlight was a clash between Rudy Giuliani (right), a former mayor of New York, and Mitt Romney, a former governor of Massachusetts, over who had raised taxes the most while in office. See article

Reuters

In what the Environmental Protection Agency described as the "largest single environmental settlement in history", American Electric Power agreed to cut 813,000 tons of air pollutants a year at a cost of $4.6 billion, ending a lawsuit over "**acid rain**" brought by the government in 1999.

## A bad week for Brown

After weeks of speculation, **Britain's** prime minister, Gordon Brown, decided not to call an early general election because, he said, he wanted more time to set out his vision for the country. That vision included pinching ideas for inheritance-tax cuts and a new tax on non-domiciled people in Britain that had been proposed just a week earlier by the Conservatives. See article

The Basque separatist group, **ETA**, was blamed for a car bomb in Bilbao that badly injured a local councillor's bodyguard. ETA called off its latest ceasefire in June. The car-bombing came a few days after a judge ordered the arrest of most of the top leaders of Bastasuna, a banned political party linked to ETA.

The **Turkish government** reacted angrily to a resolution adopted by an American congressional committee calling the killings of Armenians by Ottoman Turks in 1915 a "genocide". Turkey threatened to limit military co-operation with the Americans. See article

**Turkey** also made noises about invading northern Iraq. The government is to seek parliamentary approval for a cross-border operation after 15 Turkish soldiers were killed by Kurdish PKK rebels, some of whom may have come from bases in northern Iraq.

## CAFTAesque

In a referendum Costa Ricans narrowly voted to approve the **Central American Free-Trade Agreement** with the United States. The other four Central American countries, the Dominican Republic and the United States have already ratified the agreement.

A court in **Argentina** convicted a Roman Catholic priest for complicity in murder, torture and kidnappings during the "dirty war" waged by the country's military dictatorship of 1976-83 against leftist opponents. It was the first time a priest had been convicted of human-rights abuses in Latin America. See article

In both Cuba where he fought and Bolivia where he died, officials honoured **Ernesto "Che" Guevara** on the 40th anniversary of his capture and death. See article

AFP

Roberto Madrazo, the 55-year-old candidate of the Institutional Revolutionary Party (PRI) in last year's presidential election in **Mexico**, was disqualified from the Berlin marathon for cheating after recording an improbably fast time. The PRI has a notorious history of electoral fraud.

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# Business this week

Oct 11th 2007
From The Economist print edition

A consortium led by Royal Bank of Scotland won a lengthy takeover battle for ABN AMRO after Barclays dropped its bid for the Dutch bank, citing a lack of shareholder support. In the biggest-ever deal in the financial-services industry, the RBS-led group will pay *euro*72 billion ($101 billion) for ABN, which will be split among the consortium's members: RBS takes ABN's wholesale business and Asian operations, Spain's Santander gets its Italian and Brazilian units, and Fortis, a Belgian-Dutch group, its Dutch retail-banking business. See article

The British Treasury extended its guarantee of customer deposits at **Northern Rock** to include new accounts. The bank was bailed out by the Bank of England last month after reporting difficulties raising cash during the credit-market crisis. Several private-equity firms are weighing a takeover. Meanwhile, officials from Britain's Financial Services Authority admitted to a parliamentary committee that they had made mistakes leading up to Northern Rock's problems, which resulted in the first run on a British bank in generations. See article

**Google's** share price passed $600 on NASDAQ for the first time. The company made its stockmarket debut, at $85 a share, in August 2004.

## Flight delay

**Boeing** said that it would, after all, have to postpone the first deliveries of its new 787 **Dreamliner**. The company had given reassurances that despite production mishaps and a short test-flight programme the first delivery would take place on schedule next May. That date has now been pushed back to late November or December 2008. See article

**Chrysler** and the United Auto Workers union reached a tentative contract agreement similar in scope to that signed between the UAW and General Motors two weeks ago. A strike at Chrysler that began just hours before the negotiations concluded was halted.

Gary Forsee stepped down as chief executive of **Sprint Nextel** when America's third-biggest mobile-phone operator lowered its profit forecast for the year. Mr Forsee oversaw the $38 billion merger of Sprint and Nextel Communications, but the company is losing customers. Its planned $5 billion project for new WiMax broadband services is thought to be in doubt.

SAP, the world's leading producer of business software, made its biggest acquisition when it agreed to buy **Business Objects** for *euro*4.8 billion ($6.7 billion).

## Beer buddies

SAB **Miller** and **Molson Coors** said they were merging their brewing operations in the United States in a joint venture, enabling them to compete better with Anheuser-Busch, America's biggest beermaker. See article

**Cadbury Schweppes** confirmed that it would spin off its North American beverages arm in a de-merger rather than seek a buyer. Before the recent turmoil in the money markets private-equity groups had expressed an interest in the business, which includes Dr Pepper and 7UP among its brands.

SLM, a student-loan company better known as **Sallie Mae**, filed a lawsuit seeking a $900m break-up fee from a group of private-equity investors that wants to renegotiate a buy-out. Led by JC Flowers, the group made a $25 billion offer for Sallie Mae in April, but says recent government legislation that reduces subsidies to student lenders has had a materially adverse effect on the deal.

A consortium led by JPMorgan and which includes an Australian infrastructure fund won the auction of

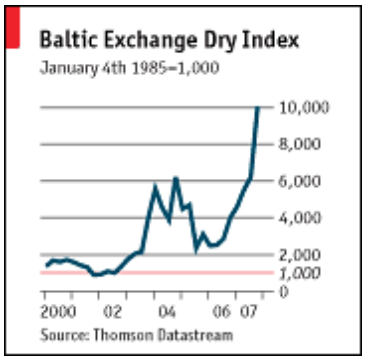
Britain's **Southern Water** in a deal worth £4.2 billion ($8.4 billion). The seller is Royal Bank of Scotland.

The European Union and China reached an accord on the flow of Chinese **textile exports** that sets up a new monitoring system. Quotas that were stiffened after Chinese clothing imports surged into Europe in 2005 are set to expire at the end of this year. The agreement between the two powers is an attempt to stave off a repeat of the “bra wars” of two years ago.

The latest **employment** data for America showed an extra 110,000 payroll jobs in September. The Bureau of Labour Statistics also revised the figure for August from a loss of 4,000 jobs to a gain of 89,000.

## Costly cargo

The Baltic Exchange Dry Index, a measure of **shipping costs** for commodities such as grains, coal and iron ore, passed the 10,000 mark for the first time. One factor adding to the cost of freight is the drought in Australia. Asian countries that rely on Australian cereals have had to seek their wheat elsewhere, meaning some vessels have been tied up by travelling farther than expected to load cargo.

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# KAL's cartoon

Oct 11th 2007
From The Economist print edition

Illustration by Kevin Kallaugher

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The party congress in China

# China, beware

Oct 11th 2007
From The Economist print edition

**The country's rulers care too much for their own welfare, and too little about the rural peasants**

OnAsia

Get article background

BASKING in its 2008 Olympic glow, no longer shy at counting itself among the world's greats and blessed with a still booming economy, China looks the coming power. And so it is, up to a point. Yet as the Communist Party's bigwigs assemble behind closed doors in Beijing for their five-yearly congress, it is China's frailties, not its strengths, that preoccupy them.

Not for the first time, Hu Jintao, the party's boss and China's president, rightly picks out two big problems: the widening gap between China's mostly urban rich and its mostly rural poor, and the party's lack of "internal democracy"—comrade-speak for accountability and the courage to question and debate. In other words, neither China's Communist Party nor its village dwellers are keeping up as the rest of China changes fast. None of the 1.3 billion ordinary Chinese gets a vote in the party's secretive conclaves. But among more than 700m left-behind peasants, frustrations are building (see article).

As in any fast-developing economy, for all its successes China's breakneck growth masks a multitude of problems, from rampant corruption and devastating pollution to a frail banking system and the lack of independent courts to uphold the rule of law. Meanwhile, three decades of "get rich quick" advice from party central have left the country divided between a richer coast and still impoverished interior, between upwardly mobile city dwellers and stagnating rural communities. These days, the income disparity between China's richest few and poorest many (peasants, migrant workers, pensioners) would make many a modern capitalist blush.

## From communism to carpet-baggers

Mr Hu has tried to accommodate some demands for change. Most recently, a law was passed that for the first time enshrines private property rights—a huge ideological leap for a party with its origins a long march back in Mao's communes. But like much else in China, these new rights will benefit mostly city-dwellers; a growing urban middle class will now be able to buy and sell their homes or businesses. In the countryside, where peasants are able only to lease their land, not own it (and not even use it as collateral for loans), the new law will do nothing to rectify the landgrabs orchestrated by venal local officials, who turf people off the land so as to do lucrative deals with carpet-bagging developers.

In this and other ways, the reforms that Deng Xiaoping first launched in China's countryside 30 years ago have now left its peasants in the ditch. But village dwellers have not only seen their city compatriots get richer quicker; increasingly, their own concerns have also been neglected. Since 1989, when disgruntled workers joined student democracy protesters and it all ended in bloodshed on Beijing's Tiananmen Square, a ruling party fearful of any further challenge to its power has paid better heed to the grievances of China's urban masses. Urbanites have won greater freedom to spend their rising incomes as they wish, while much ballyhooed experiments in greater village democracy have gone nowhere. With access to the internet and mobile phones, China's middle classes can organise themselves to oppose, say, the siting of an unwanted chemicals factory and thus draw government attention. Despite many thousands of village protests each year against corrupt officials, poor medical services and bad schools, China's peasants—more dispersed, less organised and therefore more easily ignored or suppressed—can usually do little but seethe.

Mr Hu bemoans China's widening inequalities, but has so far done little to bridge them. In fact there is much that could improve the peasants' lot. Growth at any cost has led to a tax system that unduly favours the wealthy regions that generate their income through industry. Central government could adjust that. It could help further by shouldering a much bigger share of the costs of basic health care and education in the rural areas. Of the five tiers of government, a couple could be stripped away and not be missed. Indeed, thinning the ranks of idle cadres with their fingers in the coffers would ease the financial burden on China's hard-pressed villagers.

## Shooting for trouble

Are such reforms too extensive and costly for a still developing country such as China? No longer. Four years ago, China put its first man in space (only the third country to do so, after Russia and America), at what true cost the government will not say. Now it is aiming for the moon, at a cost of many more billions: its first (unmanned) moon-shot is expected to take place soon. Like the Olympics, China's space programme is an expensive publicity stunt, designed to encourage nationalist fervour in a population—and a party—long since bored with the maxims of Marx, Lenin and Mao.

Another way in which Mr Hu and his comrades could help the peasants would be to divert some of the double-digit annual increases in defence spending to help the estimated 40% of China's villages that have no access to running water. The trouble is that China's military build-up has become the measure of the party's commitment to another nationalist cause that it has stoked in an effort to bolster its tattered credentials: the eventual recovery, by persuasive hook or military crook, of the island of Taiwan, which China claims as its own.

So far the combination of this appeal to nationalism and the pursuit of economic growth at almost any price has helped the party maintain its grip. But just as China's periodic shrill threats to Taiwan threaten the stability of the wider region, so the plight and growing anger of China's peasantry are a harbinger of potential trouble ahead at home.

It is trouble that China's Communist Party is increasingly ill-prepared to deal with. For all Mr Hu's rhetoric about greater internal democracy, the party is too fearful for its own survival to open itself up to a genuine clash of ideas. Although a few brave voices have called for that (see article), there has been no open debate in the run-up to the congress about how to address any of China's pressing rural problems. To add to their burdens, China's peasants are saddled with a ruling party that is too worried about its own survival to spend more than a little lip-service on theirs.

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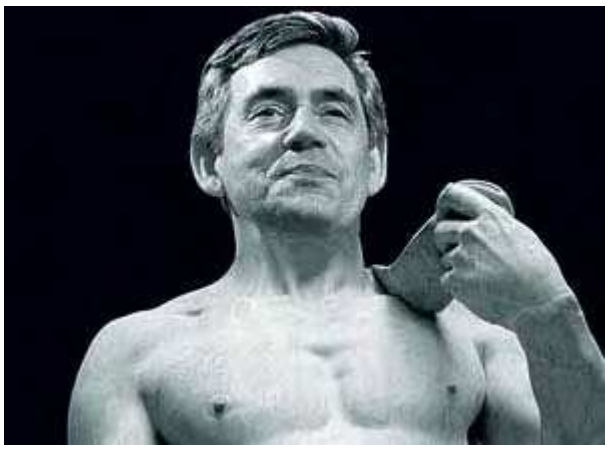
British politics

# The emperor's new clothes

Oct 11th 2007
From The Economist print edition

**Having wasted everybody's time with his phantom election, Gordon Brown must show what he stands for**

Bridgeman Reuters



Gordon Brown

EVERY politician knows the cautionary fable: the vain emperor who kept on buying new clothes, who was eventually sold an imaginary new suit—and who was suddenly and publicly revealed to be worryingly short of substance. So how on earth did Gordon Brown, one of the canniest operators in British politics, end up seeming so naked?

The brief history of his premiership now looks rather like Hans Christian Andersen's exercise in groupthink. Since he took over from Tony Blair in June, Mr Brown has dressed himself in a whole wardrobe of different political costumes. Borrowing the traditional garb of the opposition Conservatives, he has appeared as a stout patriot and hammer of criminals and foreigners. In his preacher's cassock, he has frowned on drugs, drink and gambling. Above all, he has striven—until this week, successfully—to portray himself as principled, strong and serious, in supposed contrast to Mr Blair. The reasonably competent management of several minor crises reinforced his gravitas. He seemed to have pulled off an impressive confidence trick, persuading voters that his was a new administration, rather than the continuation of Mr Blair's, throughout whose ten years Mr Brown was second-in-command.

The result was a wide lead over the Tories in the polls. His acolytes in the Labour Party—including many once sceptical about his leadership—extolled him as a seer, who would keep them in government for another decade. His whole team encouraged talk that Mr Brown would stage a general election, which British prime ministers call more or less at their pleasure. There was no need for one: he inherited the parliamentary majority Mr Blair won in 2005. The aim was to crush the Tories, supposedly as lame as Mr Brown was invincible.

## A murmur from the crowd

The imperial pomp was shattered by a decent speech by David Cameron, the Conservative leader, and by a salvo from George Osborne, the impish shadow chancellor. Mr Osborne pledged that a future Tory government would dramatically raise the threshold above which inheritance tax is levied. Suddenly the polls, especially in marginal constituencies, looked less rosy for Mr Brown. The prime minister announced that there would be no early vote after all. But he admitted he had thought about one, contradicting his previous insistences that he was focused wholly on governing. Worst of all, he insulted voters' intelligence by denying the blindingly obvious—that the adverse polls had swayed his decision.

Now Mr Brown seems less strong and serious than weak and spinning. A visit he made to Iraq in advance of the phantom election campaign seemed to exploit Britain's armed forces for party advantage: the emperor of Downing Street, like the one in the fable, now stands accused of caring more for his image than for his soldiers. Meanwhile, his political underwear—his broadly successful stewardship of the economy—has begun to look skimpy. His successor as chancellor was obliged this week to reduce the official growth forecast in his mini-budget (see article). Despite more than a decade of economic expansion, borrowing and tax are set to rise, and the increase in spending on Britain's public services will slow.

Does the non-election fiasco mark a fundamental shift in British politics, the beginning of the end of the Labour imperium that began with its landslide win in 1997? It is too early to say conclusively—but it might.

## Enough cross-dressing

Certainly Mr Cameron and the Tories look stronger than seemed feasible a fortnight ago. But to win a general election—now unlikely, Mr Brown says, before 2009—they need to develop their eye-catching but embryonic ideas about the proper size and complexion of the state into a more coherent platform for government. Petrified, still, by their old reputation for heartlessness, the Tories have pushed policies that so far only tinker with the tax code rather than reforming it. The response to the inheritance-tax proposal suggests that the time is ripe to ditch Britain's long cross-party consensus about taxation (broadly, that whatever overall level Mr Brown set—now some 40% of GDP—is correct). That does not mean abandoning the new emphases on poverty, the environment and health care; it means combining them in a way that reins in government power.

So Mr Cameron is still underdressed; but he now has a couple of years to change that impression. Mr Brown does not. Ironically, one of the many excuses he gave for his election retreat—he wants more time to set out his “vision” for Britain—has a core of truth. So far, it is not at all clear how that vision is distinctive, beyond the laudable but universal aims of alleviating poverty, improving schools and hospitals and reinforcing meritocracy. Indeed, immediately after the climbdown, Mr Brown reverted to his costume-changing ways, hastily adopting a version of the Tories' inheritance-tax proposal and pilfering ideas on taxing aviation and offshore wealth.

To more guffaws from the crowd, the government claims this had always been in their thoughts. In fact, there is nothing, in principle, wrong with pinching other parties' policies, if they are good ones. But Mr Brown needs to convey a sense of how he intends to finish the main tasks—reforming the public services; reshaping the constitution—that Mr Blair botched. That was this newspaper's plea when he took office. It has not been answered. It is worrying that, despite this week's pledge of yet more cash for the health service, he has said little about how to spend it more effectively; worrying too that his views on choice in schools are opaque. He says he wants the public sector to offer “personalised” services. But it is not clear what (beyond “better”) that means, or how it is to be achieved.

Silly as he now looks, it is too early to write Mr Brown off. There is a way out of this mess, which is to govern well. With the election shelved, he must concentrate on actually doing the job he coveted for so long—and which he may end up holding for much less time than once seemed likely. He must stop trying to bedazzle, and stand before the public in his true political clothes. Assuming, of course, that he has some.

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Pakistan

# Farce in Islamabad

Oct 11th 2007
From The Economist print edition

**A general election would have been better than the "re-election" of a general**

AP

Get article background

THE re-election of General Pervez Musharraf as Pakistan's president on October 6th was "fair and transparent". That was the considered judgment of his chief sidekick, the prime minister. "Unrepresentative, rigged and at gunpoint" would have been nearer the mark. General Musharraf is inching towards a destination that, in the abstract, appears acceptable: a power-sharing arrangement with Benazir Bhutto, a former prime minister who leads Pakistan's most popular political party from exile. But, to get there, the general is taking so undemocratic a route that he has already almost ensured that such a settlement will be illegitimate and unstable.

The election was legally dubious. The electoral college is made up of the federal and provincial parliaments. A general election is due by mid-January, so logic would suggest that the new bodies should elect the president. General elections, however, might produce less supportive legislatures. As it was, opposition parties resigned from the parliaments rather than endorse this travesty. Even Miss Bhutto's party, although its members stayed put, abstained from the vote.

Also, Pakistan's Supreme Court has been mulling whether General Musharraf can be elected president while still army chief. Bizarrely, it allowed the election to proceed but with no winner to be declared until it has decided on the general's eligibility. General Musharraf has said he will quit his army post before being sworn in as president next month. But he has not done so yet, and his henchmen are hinting that the consequence of an adverse judgment will be a state of emergency. So the court faces a choice between legitimising military rule by "election" or provoking military rule by other means.

Miss Bhutto, meanwhile, is due to return from exile on October 18th. She has secured the government's agreement to drop corruption charges against her and others. Excluded from the amnesty, however, is Nawaz Sharif, another former prime minister, who was bundled back into exile when he tried to return last month. Miss Bhutto also expects to win another concession—ending a ban on prime ministers serving a third term. The way would then be clear for a general election, which would ally General Musharraf with a popular politician and give his administration what looked like a popular mandate.

This would be a great boon to America. General Musharraf is an important ally in the fight against al-Qaeda and the Taliban, but his lack of democratic legitimacy is an embarrassment. As often happens when outsiders' attention might focus more on the general's questionable commitment to democracy than on his terrorist-fighting credentials, this week has seen a flare-up in fighting in Pakistan's Taliban-ridden tribal areas bordering Afghanistan (see article). It has been fierce and bloody: nobody doubts that

Pakistan is central both to the war in Afghanistan, and, more generally, to the struggle to uphold moderate political Islam.

## No laughing matter

That cause, however, is not best served by rigging political and constitutional processes. Miss Bhutto, campaigning in a free and fair election, might have persuaded voters that General Musharraf's staying on as president was a good idea. In an election where his future has already been decided, and from which her main rival, Mr Sharif, is excluded, she will look like General Musharraf's stooge. Rather than give civilian legitimacy to a military government, the arrangement will taint Pakistan's largest secular party.

Perhaps a proper election can still be salvaged from this mess. If not, the loser will be democracy, and the winner not stability but Islamist extremism.

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ABN AMRO

# Triple play

Oct 11th 2007
From The Economist print edition

**The world's biggest banking deal is a milestone for other reasons too**

Illustration by Claudio Munoz

HEARD the one about the Scotsman, the Spaniard and the Belgian? The make-up of the consortium that claimed victory this week in the battle for ABN AMRO, a Dutch bank, sounds like the stuff of weak jokes. For the bosses of the Royal Bank of Scotland (RBS), Spain's Santander and Fortis, a Belgian-Dutch bank, the punchline has been worth waiting for. The consortium announced on October 8th that 86% of ABN's shareholders had accepted its €72 billion ($101 billion) offer. Pending formalities, this will be the world's biggest-ever banking transaction by far. But the real significance of the deal lies not in its steepling size but in its timing, its politics and, above all, its structure.

Timing first. The consortium, which beat out a rival bid from Barclays, a British bank, has had to raise record amounts of money in the teeth of a credit crisis. It has not been easy. Consortium members have had to offer higher rates of interest to borrowers and turn to docile retail investors for funds. Even so, their success offers timely reassurance that credit markets, for big-name borrowers at least, are negotiable.

The deal, the first hostile cross-border takeover of a big European bank, is welcome politically too. ABN's bosses clearly preferred a deal with Barclays, which would have kept the institution largely intact and its headquarters in the Netherlands, to dismemberment by the consortium. Initial reactions from the Dutch regulator sparked worries that protectionist sentiment would stymie a takeover. The fact that the deal has passed off without interference widens the door to further cross-border activity in an insular industry.

## All for one, bits for all

The acquisition's most striking feature is the consortium itself. Each member of the trio will grab the bits of ABN AMRO that suit it best. RBS will take over ABN's wholesale business as well as its Asian operations. Santander, widely felt to have done best out of the deal, will carry off its retail-banking franchises in Brazil and Italy. Fortis, which is making the biggest leap, will take control of the Dutch retail network and ABN's asset-management and private-banking arms.

A conquer-and-divide strategy has much to recommend it. Individual institutions seldom complement each other perfectly: consortia ought to be more efficient at maximising gains from an acquisition. Breaking targets into chunks should make each bit easier to digest. Like the club deals that propelled private equity up the buying ladder, pooling resources means that bigger targets can come into play (no small consideration when credit has become more expensive).

Bids of this kind are not easy to put together, however. Finding willing partners with a snug fit of interests in a specific target company is hard. Agreeing on how to divide the spoils is equally difficult, particularly if each party has its own set of advisers (the role of Merrill Lynch as sole *consigliere* to the consortium should not be underestimated). Unravelling institutions of the scale of ABN is complex: customers, employees and IT systems will bleed messily across the neat theoretical divisions between consortium members.

The end of the ABN saga does not herald a rush of dealmaking among banks. The consortium has lots to do before it can rebut charges that it has overpaid. But the message sent by the deal is a salutary one. The trigger for the bidding battle was a letter from an activist hedge fund demanding that ABN consider a break-up. The precedent set by the consortium adds steel to such demands. The pressure on bloated banks to demonstrate that they are worth more than the sum of their parts will increase. For them, it is no laughing matter at all.

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Che Guevara

# A modern saint and sinner

Oct 11th 2007
From The Economist print edition

**Why the Che myth is bad for the left**

AP

THE bearded face—eyes staring defiantly to infinity, the long wavy hair beneath the beret stirred by the Caribbean breeze—has become one of the world's most familiar images. Alberto Korda's photograph of Ernesto “Che” Guevara may be waved aloft by anti-globalisation protesters but it has spawned a global brand. It has adorned cigarettes, ice cream and a bikini, and is tattooed on the bodies of footballers.

What explains the extraordinary appeal of Guevara, an Argentine who 40 years ago this week was captured and shot in Bolivia (see article)? Partly the consistency with which he followed his own injunction that “the duty of the revolutionary is to make the revolution”. A frail asthmatic, he took up arms with Fidel Castro's guerrillas in Cuba's Sierra Maestra. After their victory, Guevara would fight again in the Congo as well as Bolivia. He fought dictators who were backed by the United States in the name of anti-communism when the cold war was at its hottest, and when Guevara's cry to create “two, three...many Vietnams” resonated on university campuses across the world. His renewed popularity in recent years owes much to a revival of anti-Americanism.

But it is semiotics, more than politics, that leads teenagers ignorant of the Sierra Maestra to sport Che T-shirts. Korda's photograph established Guevara as a universal symbol of romantic rebellion. It helps, too, that he died young, at 39: as a member of the Cuban gerontocracy he would hardly have become the James Dean of world politics. A second picture, that of the bedraggled guerrilla's corpse, staring wide-eyed at the camera, provides another clue. It resembles Andrea Mantegna's portrait of the dead Christ. It fixes Guevara as a modern saint, the man who risked his life twice in countries that were not his own before giving it in a third, and whose invocation of the “new man”, driven by moral rather than material incentives, smacked of St Ignatius Loyola more than Marx.

In Cuba, he is the patron saint: at school, every child must repeat each morning, “We will be like Che.” His supposed relics are the object of official veneration. In 1997, when Cuba was reeling from the collapse of its Soviet ally, Mr Castro organised the excavation of Guevara's skeleton in Bolivia and its reburial in a mausoleum in Cuba. Except that in the tradition of medieval saints, it probably isn't his body at all, according to research by Bertrand de la Grange, a French journalist.

## A fighter against freedom and democracy

The wider the cult spreads, the further it strays from the man. Rather than a Christian romantic, Guevara was a ruthless and dogmatic Marxist, who stood not for liberation but for a new tyranny. In the Sierra Maestra, he shot those suspected of treachery; in victory, Mr Castro placed him in charge of the firing

squads that executed “counter-revolutionaries”; as minister of industries, Guevara advocated expropriation down to the last farm and shop. His exhortation to guerrilla warfare, irrespective of political circumstance, lured thousands of idealistic Latin Americans to their deaths, helped to create brutal dictatorships and delayed the achievement of democracy.

Sadly, Guevara's example is invoked not just by teenagers but by some Latin American governments. In Venezuela, Hugo Chávez wants to create the *guevarista* “new man” (see article), just when Cuba is having second thoughts. As Jorge Castañeda, one of Guevara's biographers, notes, Che's lingering influence has retarded the emergence of a modern, democratic left in parts of Latin America. Sadly, most of those who buy the T-shirt neither know nor care.

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# On Canada, biofuels, saffron, murder rates, lynchings, risk, greens

Oct 11th 2007
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

## On Canada's border

SIR – Contrary to the assertion made in your article on Canada's asylum policy, Canada is not a shelter for terrorists ("A haven for villains", September 15th). Indeed, Canada has been among the most vigilant in fighting terrorism, both at home and abroad. We have increased the number of immigration officers deployed around the world to stop human-trafficking and smuggling. Working with our international partners, these officers intercepted over 4,500 improperly documented persons bound for Canada in 2006-07. Canada removed more than 12,000 foreign nationals last year, of whom close to 2,000 were priority cases involving criminality. We have also steadily increased the removal of failed refugee claimants, from 5,900 in 2001 to 9,300 in 2006.

The government has taken other steps to strengthen border security, including the arming of border officers, and we will make sure that our immigration officials and border officers are provided with the security resources they require. We are also prepared to close any loopholes left in legislation by the previous government. Canada has been, and will continue, working in close co-operation with the United States to ensure that our shared border is closed to terrorists but open for legitimate trade and travel.

Stockwell Day
Minister of public safety
Government of Canada
Ottawa

## Alternative energies

SIR – Your article on advanced biofuels fails to recognise the problem of using corn in American ethanol ("Ethanol, schmethanol", September 29th). Making ethanol from corn is land and energy intensive. If America were truly serious about turning green it would lift the import taxes on Brazilian sugar-cane based ethanol.

It would also do more to encourage the use of vehicles with flexible-fuel engines to provide American consumers with something they do not have: a real choice. In Brazil 80% of new vehicles run on ethanol, petrol or a mixture of both. There is no special tax rebate for these cars: we buy them because we want to. We treasure our energy security too, and now have a better method of defending ourselves against high oil prices.

Felipe Diógenes
Rio de Janeiro

SIR – You are right that ethanol is not the answer to our car-fuel needs. Nor are the other "pure fuels" that will come from the efforts of microbiologists. The debate, however, is not complete unless you also consider the engines that consume the fuel. In the technical world we are increasingly viewing the solution to our future fuel needs as a system issue.

Raw materials, processing and consumption are all part of a process through which transport is powered. Armed with the best microelectronic technology the humble engine can be clean and efficient and above all tolerant of the fuels it consumes. We simply need to develop the technologies that we already have at our disposal. A diverse set of fuels taken from a variety of sources can still meet our needs, so long as we develop all the technologies in the long chain that connects nature to our cars.

Richard Stobart

Professor of automotive engineering
Loughborough University
Loughborough, Leicestershire

## Hue and cry

SIR – A “saffron revolution” in Myanmar sounds romantic, but Burmese monks don't dye their robes with saffron (“The saffron revolution”, September 29th). Thai monks do, which gives their robes that beautiful golden colour. Burmese monks achieve their deeper brown with different kinds of bark, ficus and jackfruit, though I suppose the “jackfruit revolution” doesn't have quite the same ring to it.

Sophia Carroll
New York

## Crime scene investigation

SIR – Peter Plotts compares the high murder rate in abolitionist Washington, DC—“an eye-popping 35.4” per 100,000 people—with the lower rate in his native Texas to belittle opponents of the death penalty (Letters, September 22nd). Such a selective use of crime statistics is easily countered. Boston is a city in a state without the death penalty, yet its murder rate in 2005 was lower than that of Dallas and Houston. And the murder rate for Richmond, a city in a state second only to Texas in its enthusiasm for executions, was an eye-popping 43. Ill-considered comparisons yield no useful conclusions about the effectiveness of the death penalty.

Andrew Marshall
Gaithersburg, Maryland

## Historical differences

SIR – Lexington likened the situation of the white members of the Duke University lacrosse team, who were wrongly accused of rape, to “the worst racism of the South in the 1950s, when people were pronounced guilty and denied their legal rights solely because they were black” (September 15th). The two circumstances are hardly similar. Blacks who were accused of raping white women in the South were often lynched before the trial commenced. Was there any serious concern that the same thing was going to happen to the Duke players?

Tarun Mehta
Kansas City, Missouri

## Never, never land

SIR – While it is true that abstinence from sex is the only sure-fire way of avoiding sexually transmitted diseases, the same holds true for any activity (“Time to grow up”, September 22nd). If I never drink, I don't run the risk of liver damage or alcoholism; if I never smoke, I do not risk getting lung cancer; if I never travel in a car, I will not risk being in a car accident; and if I never use stairs, I won't risk falling down a flight or two.

Actually, if I never did any activity and stayed on the ground floor of my house I would never be at risk of anything. But how dull life would be. With life comes risks, and it is up to all who educate children and teenagers to help them navigate those risks with intelligence and foresight—not command them simply to avoid all dangers.

Diana Camosy
Chicago

## Puritanical greens

SIR – You sometimes display a ridiculous overly green sentiment. For example: “The lesson is being learned in Scottsdale, a place whose extraordinary growth in recent decades has often meant swimming pools and green lawns somehow engineered in the desert” (“Green as houses”, September 15th). In the Arctic-like winter of Winnipeg, my hometown, people pass the brutally cold months by strolling under tropical plants through temperate malls, with fountains splashing invitingly. This has also been “somehow

engineered”, but in the deep, frozen-solid Manitoba winter.

Those who want to reduce their horrid carbon footprint should perhaps move to northern California, where neither artificial heating nor air conditioning are ever required, and where they can cavort Tarzan-like in bare skins and sandals all year round.

Jonathan Smith
Cupertino, California

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Rural China

# Missing the barefoot doctors

Oct 11th 2007 | LUOCHUAN
From The Economist print edition

The Image Bank

**Many a problem lies in the way of a “new socialist countryside”**

Get article background

THE county of Luochuan, on the loess plateau of northern Shaanxi Province, used to be one of China's poorest places. Today it looks relatively prosperous. The main street of the county seat is lined with hotels and restaurants, and the reddening orchards of this apple-growing district stretch beyond the town. Household net incomes per head in rural Luochuan are now approaching the average for the Chinese countryside. Last year they rose by more than 9%, slightly under average.

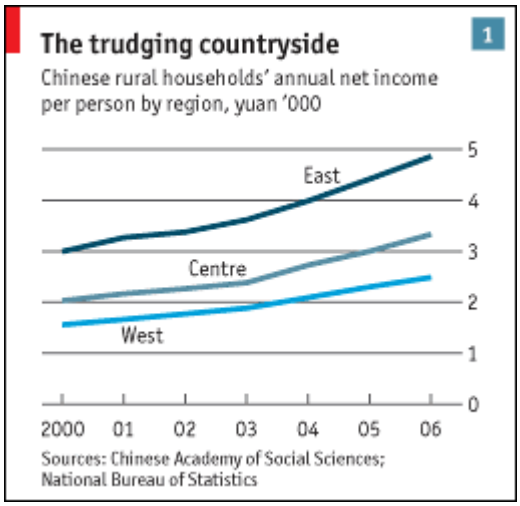
During the Maoist purges of the 1960s, this was a place where, according to Luochuan's official history, “everyone was afraid”. But memories of the Cultural Revolution have long since faded. Luochuan's state-owned agricultural-machinery factory, which once turned out tanks and hand-grenades for Maoist mobs, has been idle for years and is trying to find a buyer. Farmers can now grow what they want, instead of grain as Mao insisted.

But Luochuan's rural citizens are nostalgic for the past. They want a public-health system that works. Mao's system of “barefoot doctors” for country districts, set up in Luochuan in 1970, may have been rudimentary, but at least it was readily accessible and practically free. Public-health care in Luochuan, as elsewhere in rural China, is now in tatters. And the extent of rural discontent is at last becoming known, as western journalists are slowly allowed to explore the backward interior.

In recent years China's Communist Party has begun to pay attention to a deep malaise in the countryside: the prohibitive cost of health care and education for the rural poor, mounting debts at the lowest levels of government, bloated bureaucracy and a growing wealth gap between rural and urban areas. Riots have become common, fuelled by the attempts of avaricious governments to raise money by selling farmers' land. Incomes may have been rising, but so has dissatisfaction. In some parts of China, more than 60% of those in dire poverty have been driven there by medical expenses. And for many rural residents the higher levels of schooling are becoming unaffordable.

President Hu Jintao and his prime minister, Wen Jiabao, like to take credit for what they portray as a change of tack. Under their leadership, the party's emphasis has switched from an all-out pursuit of economic growth to the need for balanced development that takes more account of the country's poorest. The need, they often say, is to build a “new socialist countryside”. At a five-yearly congress due to begin on October 15th (see article), the party, at Mr Hu's request, will rewrite its own charter to give the president's theory about the need for “scientific development” (meaning pro-poor and pro-environment) the same sanctity as the philosophies of Mao, Deng Xiaoping and Mr Hu's predecessor, Jiang Zemin. But among the rural poor there will be little celebration.

“If peasants become better off, the country is secure,” said Mr Wen earlier this year. On average, they are becoming wealthier. For the past three years rural income per head has risen by more than 6% annually in real terms. In the first half of this year, pushed by fast-rising food prices, it was up 13%, the highest increase since 1995 according to official media. But the gap between rural and urban incomes has continued to widen. And progress has been far slower in areas like Shaanxi, far from the prospering coast (see chart 1).




Rural China is still home to about 60% of the country's 1.3 billion people, but agriculture's contribution to GDP has fallen from more than a quarter in 1990 to less than 12% today. Central-government spending on agriculture and rural welfare as a proportion of total spending has similarly fallen from 8-11% in the 1990s to 7-8% for most of this decade. Thanks to a booming economy under Mr Hu and Mr Wen, the central budget is getting bigger and its expenditure is growing fast. But outlays on health care and education, as a proportion of total spending, remain lower than they were a decade ago.

## Where boom doesn't reach

The 2,217 delegates to the congress, for whom dissent is taboo, will praise Mr Hu's achievements. For the first time in Chinese history, farmers, except for tobacco-growers, have been exempted from tax on their land or agricultural production. This has marked the end of a process of rural tax cuts that began well before Mr Hu took office. Since 2003 a new medical-insurance system, involving for the first time a financial commitment by the central government, has been set up in at least 80% of rural counties in place of the long-discarded barefoot-doctor scheme. At the same time, rural children have begun to enjoy free education during their nine years of compulsory schooling—although many still have to pay for their textbooks.

Since 2004 the government, for the first time, has been giving direct subsidies to grain farmers in an effort to keep them growing grain and to curb grain-price rises. This year the subsidies are due to rise 63%, to 42.7 billion yuan ($5.7 billion). Grain output has risen for three consecutive years, the best stint of growth since 1985. But high grain prices may have encouraged this more than the subsidies, which have been largely offset by the rising cost of fuel, fertiliser and other materials.

The changes are a temporary salve, at best. In the case of the medical-insurance scheme, the biggest beneficiaries are the richest peasants. The poorest are just as likely to choose to die at home rather than risk deeper impoverishment of their families by venturing into hospital. The measures also do next to nothing for a huge section of the rural population that has moved to the cities in recent years. These people, perhaps 150m of them, enjoy neither the recent benefits accorded to those who have stayed on the land nor the far greater subsidies enjoyed by their city-born counterparts. In 2004 the World Health Organisation (WHO) described the launch of the new medical system during such a rapid population shift as “the equivalent of launching a ship with a radically new design at the height of a typhoon”. The ship is not weathering well.

In Jiuxian, one of Luochuan's 16 townships, the hospital is one of the better looking buildings amid a hotch-potch of grey and brown Mao-era edifices (some of them “caves”, built directly in the loess soil and open only at the front). It has recently been rebuilt at a cost of 4.5m yuan. A cluster of crates in the lobby containing new medical equipment has yet to be unpacked. A handwritten notice explains how the township's 14,000 citizens, most of them scattered in 34 surrounding villages, can enjoy the benefits of what is known as the “new co-operative medical system” introduced three years ago.

The system sounds a good deal. For a premium of a mere 15 yuan (about $2) a year, Jiuxian's residents can claim back a big part of their hospital costs. Before 2004 they had no insurance at all. Now, beyond a certain threshold (which varies between 100 yuan and 600 yuan according to the quality of hospital) and up to a ceiling of 10,000 yuan a year, they can reclaim between 40% and 60% (the better the hospital, the lower the percentage). The premium is waived entirely for the “impoverished”, of which there are several hundred in the township. For each premium paid, the central government contributes another 10 yuan. The provincial, prefectural and county governments add a total of another 10 yuan to the kitty.

The premiums may sound small for such potentially great rewards. But for rural residents, who earned on average 3,371 yuan last year, 15 yuan amounts to nearly two days' income. In Luochuan, as in other counties where the insurance scheme has been launched, officials have reported very high rates of participation by farmers, usually over 80%. But a former senior official in Luochuan's health bureau says participation has not been as voluntary as officials make it out to be.

Yang Xiumei, who is lying on a hard bed in a small, dim ward (left untouched by upgrading) of Jiuxian's hospital, has picked the wrong time to suffer haemorrhaging and abdominal pains. In her village, says the 44-year-old Ms Yang, officials told farmers that insurance premiums would be deducted, whether they liked it or not, from subsidies they were due to be given for growing grain. But they have received neither the subsidies nor the crucial enrolment booklet for the insurance scheme. The hospital considers her uninsured, and her costs are mounting.

What if Ms Yang had received her booklet? Her insurance would not kick in until she had spent 100 yuan, the equivalent of nearly 11 days' income for the average Luochuan rural resident. Beyond that she would then be able to claim 60% of her expenses, but these could amount to several hundred more yuan even for a relatively minor complaint. The Jiuxian hospital, with its three doctors, can perform only the simplest operations and provide only basic care. Anything more serious requires a trip to the Luochuan county seat, 20km (12 miles) away. For insured Jiuxian residents who used county-level facilities, average out-of-pocket expenditure in June was 1,219 yuan, or four months' income.

## Unnecessary X-rays

Hospitals are under pressure to push up charges. Jiuxian's hospital is subsidised by the county government, but only enough to cover 85% of its staff's wages, which are relatively generous. The rest of its money has to come from fees and selling medicine. The government caps the prices of common medicines, but doctors get round these by prescribing other medicines or ordering unnecessary procedures, such as X-rays. Without changes in the way rural hospitals are funded, poorer farmers will feel little benefit from the new insurance scheme. Henk Bekedam of the WHO says the poor would not even be able to find the cash to pay for treatment at first, even though some of it would be reimbursed.

Researchers from the Chinese Academy of Social Sciences in Beijing have been trying to set up a parallel insurance system in Jiuxian. Under this scheme, farmers have been encouraged—more politely this time—to pay another annual premium of 10 yuan. For this they are offered free consultations and drugs about 25% cheaper than those sold in the hospital. At first the academics tried using hospital staff to administer the scheme, but it quickly became clear that the doctors were not interested in prescribing cheap drugs, only expensive ones. As disgruntled farmers pulled out of the scheme in droves, the researchers scaled back their staff and closed down all but one of their six clinics dotted around the township. Now they have just one doctor, a pharmacist and a nurse manning a clinic-cum-dispensary in the township seat. The participation rate has dropped from 40% to around 12%. Charity donations, which had helped them, have recently run out.

The county and township governments are not keen supporters of the researchers' efforts. Their main interest is to ensure that Jiuxian's hospital covers its costs. Funding it more fully from their own budgets would not be easy, especially since almost all agricultural taxes have been abolished. The official media hailed this as the lifting of a centuries-old burden on peasants. But rural governments in areas with few non-agricultural industries, though partly compensated by the central government for their losses, went into budgetary shock.

## Cave-dwelling teachers

Zealous officials in Yanan prefecture, of which Luochuan is part, were among the first to respond to Mr Wen's tax-abolition initiative. Buoyed up by revenues from local oil and gas industries, they abolished agricultural taxes in 2004, resulting in a 200-yuan-a-year net gain on average for farmers in Luochuan, according to the official media. But Luochuan's county and township governments struggled merely to meet payroll commitments for their staff. Subsidies received by Luochuan to cover its loss of tax income were fixed at the level of its agricultural tax revenues in 2002. But miscellaneous fees imposed on farmers earlier in the decade were lost too, according to a report in *Macroeconomics*, a monthly journal published in Beijing.

Revenue losses have coincided with another extra financial burden: Mr Wen's policy of free education for rural children. Education expenditure from the county budget increased by 20.8% last year, compared with increases of only 6.9% and 5.6% in the previous two years. More money provided by the central, provincial and prefectural governments has helped, but not enough. Once again, Yanan prefecture has chosen to do things the hard way. It has required all schools not only to abolish fees (as ordered by the central government), but also to subsidise all boarders and give free textbooks to everyone. Luochuan county has to pay 10% of the cost of these extras from its own coffers.

At Anmin Junior Middle School, next to the county seat, so much money is flowing in to subsidise the free education programme, which began in Luochuan in 2005, that the school is handing out ten yuan in cash to boarders' families every term. Last year, with a special grant of around 2.4m yuan, the school knocked down the teachers' “cave” dwellings and built smart new dormitories for them. The school's headmaster, Gao Feilong, says the dropout rate is now zero. In the 1990s soaring fees were forcing some of Luochuan's pupils to quit school.

A survey conducted by Shenzhen University found 82% of farmers in Luochuan were happy with the recent school-fee reforms. But they were far less happy with the quality of teaching and school facilities. Fixing these problems would require a lot more money from a county that is already spending a quarter of its budget on education (mostly on teachers' wages). To cut costs, Luochuan has closed down nearly half of its 320 primary and middle schools since 2003, resulting in lay-offs for more than 700 teachers and forcing many more children to board. At Anmin School about half of the pupils live in a cramped, spartan dormitory building in a muddy yard at the back of the barrack-like complex. There may be no dropouts now, but for poorer students the huge cost of continuing their education beyond this level is a disincentive to study hard.

Luochuan's finances would work far better if it cut its bloated bureaucracy. It is trying. The county government has, in effect, taken over management of township budgets, stripping the townships of what little power they still retained. Some provinces are now bypassing both the prefectural- and township-

level governments in order to get funds more directly to rural areas. But experiments with rural democracy—hailed by the party in the 1990s as a great way to improve public supervision of how money is spent—have proved too challenging to the party's political grip.

Many Chinese experts say the burden of supporting basic health care and education should be shifted to higher-level governments. That done, prefecture and township governments could be massively trimmed or eliminated altogether. But neither widespread lay-offs in an already volatile countryside nor a huge increase in central-government spending are palatable options for China's leaders.

Nor are they rushing to address the needs of those millions of country-dwellers who have moved in recent years to work in urban areas. Even peasants who have been living for several years in cities are still classified as rural residents, and as such are often excluded from urban welfare schemes. A former Luochuan resident working in Beijing, 700km to the north-east, would have to go back to the county for medical treatment if he wished to get reimbursement. Only a few million migrant workers enjoy medical insurance provided by their urban employers. From January 1st it will be compulsory for employers to offer it. But since many migrants are employed informally, without contracts, this will not make much difference.

Such problems need urgent attention. Officials say that by 2020 about 60% of the population will be living in cities or towns. This implies that more than 200m more people will move from the countryside by then. That figure may be too alarmist: there are signs that urban factories are running out of migrant labour, and reports that bad working and living conditions in some cities are deterring the rural poor. But over the coming years China's rural problems will increasingly become urban ones. China and its cities will need to spend a lot more to deal with them.

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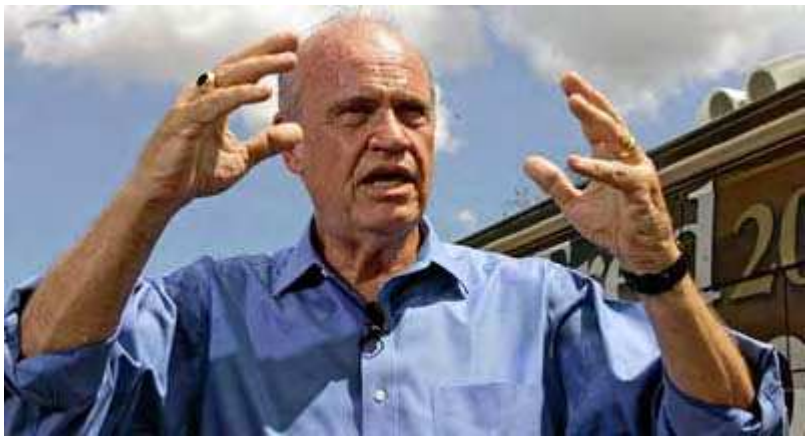
The candidates: Fred Thompson

# The tall guy from Tennessee

Oct 11th 2007 | WASHINGTON, DC
From The Economist print edition

AP



**He is amiable and popular, but Fred Thompson has yet to demonstrate that he is a heavyweight**

“HE'S dumb as hell...but he's friendly.” So said Richard Nixon about Fred Thompson three decades ago, when Mr Thompson was a young lawyer working on the Watergate investigation. Now Mr Thompson is running for president, but the conventional wisdom about him has not changed much. “Dumb as hell” was obviously Tricky Dick stretching the truth, but Washington's chattering class is sure Mr Thompson is less sharp than his main rivals for the Republican nomination. Expectations for his first debate with them on October 9th were low. To meet them, “[a]ll he has to do is not drool,” reckoned Roger Simon of the *Politico*, a Beltway newspaper. He comfortably cleared that hurdle. But there will be higher ones.

Mr Thompson is running because a lot of people begged him to do so. Republicans are not thrilled with their choice of presidential candidates. Rudy Giuliani, Mitt Romney and John McCain have many fine qualities, but also flaws that irk the Republican base. Mr Giuliani is pro-choice. Mr Romney is a Mormon and only recently came out against abortion. Mr McCain is too old and has needled the Christian right too often. For some time now, Republicans have been seeking an alternative. Someone with a long record of social and fiscal conservatism. Someone likeable. Someone who can win. Someone like Ronald Reagan. Some people think Mr Thompson might fit the bill.

Like Reagan, Mr Thompson has an actor's charisma. He is tall, he has a deep, gravelly voice and he has played authority figures (including three presidents) in a variety of movies. He appears on the television nearly every night in the popular series “Law and Order”, in which he plays a wise and tough prosecutor. Like Reagan, he has a folksy charm and broad-brush conservative instincts. But there the parallels cease.

Yes, Reagan was an actor, but he was also a two-term governor of California, one of the most important jobs in America. He was a standard-bearer of small-government, strong-defence conservatism for decades, and in 1976 he mounted a primary challenge against a sitting Republican president (Gerald Ford, whom he deemed too wishy-washy), and nearly beat him.

Mr Thompson's political resumé is somewhat thinner. He was a senator from 1994 to 2003. He ran an impressive campaign, driving around Tennessee in a red pick-up truck and seducing voters with common-sense homilies. But when he arrived in the Senate, he found it arduous and dull. When the *National Review* asked him to name his most significant accomplishments during that period, he said: “You mean besides leaving the Senate?”

Pressed, he talks about cutting taxes, strengthening the armed forces and enacting welfare reform. Which is to say, he voted for these things. But he was hardly the driving force behind them. The bill he

was most prominent in promoting was the McCain-Feingold campaign-finance law— which most conservatives hate.

Mr Thompson's resumé looks weak compared with those of his Republican rivals, too. Mr McCain is a war hero and a champion, in the Senate, of numerous causes, from immigration reform to the banning of torture. Mr Giuliani, as mayor of New York, rescued America's largest city from crime and dysfunction. Mr Romney ran two successful companies, plus the 2002 winter Olympics and Massachusetts. All three are palpably driven men. Mr Thompson, by contrast, often gives the impression that he has simply coasted through life.

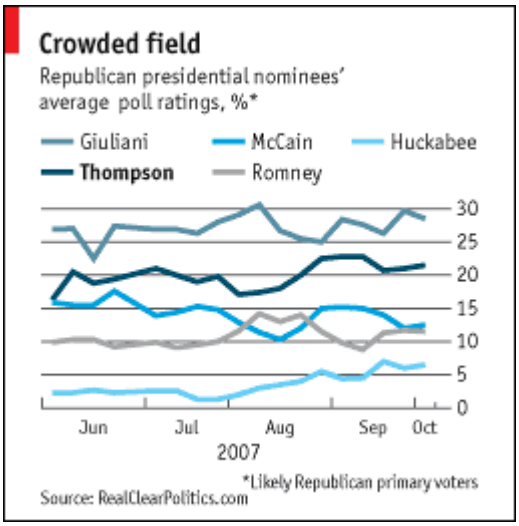
His roots were modest—his father was a used-car dealer. He was a laid-back high-school student. He married his first wife, Sarah Lindsey, when they were both teenagers, after she became pregnant. Her family, one of the most influential in Lawrenceburg, Tennessee, the small town where he grew up, helped him through college and law school, and he joined her uncle's law practice. He turned out to be a pretty good lawyer. He also dabbled in Republican politics, which led eventually to his being hired to work on Watergate. (Hillary Clinton was on the other side.)

Another lucky break came when a corruption case he argued caught Hollywood's attention. Mr Thompson was asked to play himself in the movie. He turned out to be a pretty good actor, too. Since the 1970s he has divided his time between acting, lobbying and politics. He has made a lot of money, and a lot of people like him.

His presidential campaign began as a clamour among grassroots Republicans. Flattered, Mr Thompson tested the waters for a while. He gave radio commentaries on red-meat topics such as terrorism, border security and gun rights. The transcripts went viral on the internet. Michael Moore, a documentary film maker loathed by conservatives, challenged him to a debate on health care. He declined, in a wry 38-second video, in which he mentioned that documentary film-makers in Cuba, whose health-care system Mr Moore admires, are sometimes locked up in mental institutions. “A mental institution, Michael. Might be something you oughta think about,” he deadpanned.

Before he entered the race, Mr Thompson was running second in national polls of Republican primary voters, behind Mr Giuliani. He still is. But his early stabs at campaigning have earned stinging reviews. His first stump speech was rambling and dull. On the trail, he has shown a limp grasp of the issues. Asked to describe the difference between his policies and those of his Republican rivals, he said: “Well, to tell you the truth, I haven't spent a whole lot of time going into the details of their positions.” Even Mr Thompson's friends thought that was pathetic. “It's called 'running' for the presidency, sir, and right now all you're doing is ambling,” grumbled the *American Spectator*, a conservative journal.

But it is still three months before the first primaries, many voters are undecided and Mr Thompson's performances are gradually improving. He won applause and some laughs when he sketched out his views on fiscal restraint to an anti-tax conference in Washington, DC, on October 5th. He spoke of keeping George Bush's tax cuts, trimming the corporate tax rate to 28% and curbing entitlement spending, for example by indexing Social Security (public pensions) payments to inflation instead of wages.




He then spent the next four days preparing for this week's debate. His cramming paid off. He ummed, stumbled and sounded far less polished than his leading rivals. But he made no obvious gaffes. When the moderator asked him to name the prime minister of Canada, he remembered Stephen Harper's surname. While some of the second-tier candidates sounded doubtful about free trade, Mr Thompson defended it, though he used the phrase “free and fair trade”, which means different things to different ears.

## Smarter than Hillary?

His southern banter will appeal to many who find Mr Giuliani and Mr Romney too slick. Talking about the alternative minimum tax, which was originally aimed at the ultra-rich but now ensnares a rapidly-expanding chunk of the middle class, he drawled: “[W]hen the Democrats start targeting the rich guy, if

you're a middle class guy you ought to run to the other side of the house because you're going to get hit."

Very droll. But Mr Thompson will soon have to parry fiercer blows than he has so far encountered from his Republican rivals. He is pro-life, but he once lobbied for a family-planning group that supports legal abortion—and, when asked, denied it. He opposes subsidies, but not for ethanol (beloved by farmers in Iowa, the site of the crucial first caucus next January). Above all, he will have to work much harder at disproving Nixon's "dumb" jibe if he is to beat Hillary Clinton.

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Libertarian protests

# Live free or get hauled off to prison

Oct 11th 2007 | AUSTIN
From The Economist print edition

### Taxing questions

THE American constitution gives Congress the power to collect taxes. The 16th amendment to it elaborates that Congress may tax incomes. That is enough to make most Americans pony up. But Ed and Elaine Brown of New Hampshire are unconvinced. In 1996 they decided to stop paying federal income taxes because, they said, they saw no law authorising such an imposition. And in January of this year, when they were convicted on charges of tax evasion, they resisted.

EPA

**Paul wants to set you free**

Mr Brown retreated to his home and vowed to fight anyone who tried to arrest him. Mrs Brown, a dentist in quieter times, joined him a bit later. Their home made a good fort. It sprawls over more than 100 acres (40 hectares) of forest and was equipped with generators, weapons and booby traps. Thus holed up, the couple gave interviews. News of their stand spread over the internet. Supporters brought food and supplies. The situation was at an impasse until federal marshals had a clever idea. On October 4th, they tricked the Browns by posing as supporters. The Browns welcomed them onto the property and were arrested on the front porch.

The Browns, it has to be admitted, are at the far end of the spectrum. But thousands of reasonable Americans are deeply committed to a candidate whose platform might appeal to such scofflaws. Abolishing the federal income tax is a priority for supporters of Ron Paul, a congressman from Texas who is running for the Republican presidential nomination on a libertarian platform. Mr Paul reckons it would be possible to accomplish this; fiscal rigour is central to his campaign. He also wants to dismantle the Federal Reserve and return to gold-backed currency. He has always opposed the war in Iraq. He wants America out of the UN, the WTO, and any other international arrangement. He strongly supports home-schooling and, of course, gun ownership.

These stances are agreeable to people who distrust government, and political watchers have been surprised by Mr Paul's success thus far. According to an October 4th Gallup poll, he is still wallowing with around 2% of the Republican vote. However, in the third quarter of this year he raised more than $5m—quite respectable compared, say, with the $9m raised by Fred Thompson.

It is probably the intensity of Mr Paul's convictions that commends him to his supporters. Republican voters are still not sure whether to believe the conservative credentials of leading candidates like Mitt Romney or Mr Thompson. Mr Paul plainly believes what he says. Perhaps the other candidates should adopt a bit of his libertarian fervour.

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Abortion

# Creative construction

Oct 11th 2007 | AURORA
From The Economist print edition

**The difficult task of building an abortion clinic**

ACTIVISTS kept their vigils and marched in their protests but, in spite of them, a Planned Parenthood clinic opened in Aurora, Illinois, on October 2nd. The $7.5m, 22,000-square-foot (6,700-square-metre) facility is one of Planned Parenthood's biggest, and is expected to treat 25,000 patients a year. A week after the opening, staff bustled through the clinic's gleaming halls. Outside, a handful of inevitable picketers kept watch.

Aurora's battle nominally centred on a permit and how Planned Parenthood obtained it. The skirmish was not the first of its kind, nor will it be the last. Planned Parenthood is trying to expand. It has 4.3m clients across the country, to whom it provides everything from uncontroversial breast exams to contraception, which upsets some zealots, to some 265,000 abortions a year, which are the cause of the bitterest battles. Cecile Richards, Planned Parenthood's president, wants to have 17m clients one day, the number of women who need subsidised birth control. But opening a new clinic is not easy.

When Planned Parenthood applied for permits in Aurora last year, it used the name of Gemini Office Development, a subsidiary, hoping to keep the project quiet for as long as possible. When pro-life activists learned of the building's true purpose in July, they were furious, claiming that Planned Parenthood had committed fraud. One protest in August drew more than 1,000 people. Activists asked the city to review whether Planned Parenthood had broken any laws during the permit process. The lawyers found no wrongdoing, however, so the clinic opened just two weeks late.

It is no wonder that planners wanted construction in Aurora to begin quietly. Planned Parenthood's outfit in Austin, Texas, held a public groundbreaking in 2003 and chaos ensued. A pro-life construction boss, Chris Danze, organised a boycott among subcontractors and publicised the phone numbers of any plumber, electrician or carpenter working on the project. The clinic's main contractor pulled out, so Planned Parenthood assumed this role itself. The company that poured the building's concrete foundation had to do so in the middle of the night.

A new clinic in Denver may face similar problems. Construction is scheduled to begin in November; activists are already protesting at a construction executive's house, and Mr Danze plans another boycott. Assuming the clinic opens, more trouble may well follow, including threats to employees and to the clinic itself. Aurora's facility has bullet-proof windows and thick walls. Some states try to close existing clinics by setting new fees and licensing requirements. In Missouri, for example, Planned Parenthood is fighting a new law that would re-designate their three clinics as surgical centres, requiring two to shut while they are renovated.

In Aurora, opponents are still trying to close the clinic, arguing that Planned Parenthood needs a special-use permit. Zoning can be yet another weapon to use against a clinic; a given piece of land may not be zoned for medical use. But Planned Parenthood made sure to choose a site that allows medical facilities and would not require a special permit. “Tactics come and go,” Ms Richards sighs, “but at the end of the day, we get health centres open.”

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Maritime disputes

# The lobster wars

Oct 11th 2007 | JONESPORT, MAINE
From The Economist print edition

**An international grey area**

AT THE mouth of the Bay of Fundy between Maine and the Canadian province of New Brunswick lies a sparsely vegetated 20-acre (eight-hectare) rock called Machias Seal Island. This place, a nesting ground for the Atlantic puffin, is also at the centre of a long-rumbling border dispute between America and Canada. Neither government seems interested in sorting it out, but some locals are passionate. “We give this island away and we might as well give away all our islands, including Manhattan,” grumbles Captain John E. Norton, whose family has operated “puffin tours” to the island since 1939.

Both countries base their claims to sovereignty over the island on interpretations of unclear historical treaties, beginning with the 1783 Treaty of Paris that ended the American War of Independence. In 1979 both governments applied to the International Court of Justice to delineate the boundary between Maine and New Brunswick, but decided against resolving the dispute over Machias Seal Island. A subsequent 1984 ruling settling other disputes in the area recognised a 100-square-mile (259-square-km) break in the international boundary known as the “Grey Zone”, in which the island lies.

Although bird enthusiasts from both countries visit during the summer months, Canada has a more noticeable presence on the island. It has operated a lighthouse there since 1832. And even though the beacon was automated years ago, it remains the only lighthouse in Atlantic Canada fully staffed by two lighthouse-keepers: perhaps something more to do with politics than navigation. Nor do the Canadians show any signs of scaling back: in the past two years the Canadian coastguard has spent approximately C$1.5m ($1.47m) on capital improvements to facilities on the island.

But the waters surrounding the island provoke the most controversy. Other fisheries in the region have collapsed. With shellfish now comprising 85% of the landed catch value in the Scotia Fundy fisheries sector, the Canadian Department of Fisheries and Oceans has allowed Canadians to catch lobsters in the Grey Zone. Maine lobstermen who have fished the waters for decades complain of overcrowding (the

fishing area within the zone is relatively small) and criticise Canada's weaker regulations. Maine lobstermen claim they employ stricter conservation measures; large lobsters, for example, must be released because they have high reproductive value. However, they are allowed up to 800 lobster traps in the area, compared with just 375 for their Canadian counterparts. Friction is mounting, and there are numerous reports of sabotage.

America has a handful of other “managed maritime disputes” with Canada, including fishing waters at Dixon Entrance between Alaska and British Columbia and areas of the petroleum-rich Beaufort Sea, near the Arctic Ocean. Globally, there are dozens more island disputes, most of them involving specks no one would care about—were it not for the oil or the fish.

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Renewable energy in Alaska

# Steam and surf in the far north

Oct 11th 2007 | SEATTLE AND SEWARD
From The Economist print edition

**Will the oil state ever support alternative energy?**

WHEN Alaskans talk about energy production, they usually mean oil and gas. The state has the largest oilfield in America—and, on its North Slope, the largest known untapped natural gas reserve. Each year Alaskans fatten their wallets with a dividend check from an oil fund. Most political rows and scandals boil down to oil or gas.

But these days, a hardy band of Alaskans are talking about other types of energy. Alaska's potential in renewables is huge. Not for sun: Alaska goes dark for half the year, and solar panels would need to be nearly vertical to prevent snow build-up, says David Lockard of the Alaska Energy Authority. There are, though, some esoteric renewables, such as fish oil converted into biodiesel.

Far more promising is geothermal energy, since Alaska lies on the “ring of fire”, a string of volcanoes that encircles the Pacific Ocean. Alaska's only geothermal plant opened last year, though it is not on the ring of fire. Another huge resource is ocean power. Alaska has 90% of the tidal potential in America, and 50% of the wave potential, according to Roger Bedard of the Electric Power Research Institute. In June Chevron, an oil giant, received a permit to explore tidal resources in Cook Inlet.

Alas, there is a small problem of transmission. With a scattered population of merely 700,000, Alaska is not a huge market for energy, even though residents need lots of heat and industries like oil drilling require plenty of power. A transmission line between Alaska and Canada is being studied and would make a big difference. But the real trouble is that many of the best renewable sources lie in more remote corners of Alaska. The Aleutian Islands have some of the best geothermal, wave and wind possibilities in the world. But some of these islands are halfway to Japan.

The other problem with Alaska is the brutal weather. Foundations for wind turbines in permafrost must be very sturdy (and expensive), says Nick Goodman of TDX Power, a wind-power developer owned by Native Americans. As for tidal power, developers in the promising Cook Inlet must contend with glacial silt scouring turbines and partial freezing of the water in wintertime, says Mr Lockard. The inlet hosts beluga whales, which could soon be added to the endangered species list.

Meanwhile, Alaskans are contending with soaring energy costs. Prices for natural gas have more than doubled in the past few years, says Chris Rose of the Renewable Energy Alaska Project. Gas heats Alaska's “railbelt”, the grid-connected area between Homer and Fairbanks where most of Alaska's population lives. Gas supplies in the Cook Inlet—which used to mean cheap energy for Alaskans—are running out. Towns off the grid in the far north are also suffering; they rely on shipments of diesel fuel for heating, and prices have shot up too. Politicians may have to turn to the nascent renewables industry to help ease the crunch.

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Baseball

# Ball blues

Oct 11th 2007 | CHICAGO
From The Economist print edition

**The curse of the Cubs strikes again**

EPA

**Blame the goat**

AUTUMN marks the return of some of America's most beloved sights. Children waiting for the school bus. Trees tinged yellow, orange and red. Pumpkins grinning on porches. And baseball fans, hooting with glee or in the depths of depression during the post-season playoffs.

Take New York City, where fans have suffered through the demise of not one, but two star teams. The Mets had one of the biggest implosions in baseball's history, blowing a seven-game lead in September. The Yankees lasted longer, yet despite a payroll of $190m they were scalped by the Cleveland Indians on October 8th. But no city has endured more heartache than Chicago, home of America's most ill-fated baseball team. The wretched Cubs have not won a World Series in 99 years.

Chicago's other baseball team, the White Sox, has fared better—they won the World Series in 2005. And they have a far less cultish following. Ask a Cubs fan why his team doesn't win, and a no-nonsense businessman will start talking about a curse placed by a man with a goat in 1945, a black cat that crossed a dugout in 1969 and a fan named Steve Bartman, who in 2003 interfered with a Cub trying to make a catch. (Newspaper cartoonists showed Mr Bartman in hiding with Osama bin Laden.)

This season Chicagoans grew giddy as their “loveable losers” advanced to the playoffs. More than 42,000 fans came to the Cubs' game against the Arizona Diamondbacks on October 6th, many wearing T-shirts that read “Goat-busters” or “Just Believe!”. Less than four hours later, the Cubs had lost again. Some fans sighed; some cried. And the seasons, they go round and round.

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Katrina's deaths

# Who's to blame?

Oct 11th 2007 | NEW ORLEANS
From The Economist print edition

## An unwillingness to be too harsh

AP

What would you have done?

HURRICANE Katrina's awful aftermath still poses legal and moral questions. Three recent cases, in particular, have offered ample opportunity for chin-tugging. To what extent can people be held to account for actions that may have caused or hastened the death of others during the worst of times? So far, Louisianans seem disinclined to judge too harshly anyone who lived through those dark days.

The most clear-cut of the three cases, at least in the court of public opinion, was that of Dr Anna Pou, a physician who cared for patients at the doomed Memorial Medical Centre after the storm. Thirty-four people eventually perished at the hospital, where indoor temperatures hovered around 110°F (43°C) for days. After a lengthy investigation, the state attorney-general, Charles Foti, determined in 2006 that Dr Pou had knowingly administered lethal cocktails of morphine and sedatives to at least four patients. He had her and two nurses arrested for murder.

The public's reaction was unsparing—towards Mr Foti. Doctors from all over the country weighed in on Dr Pou's behalf. It was up to New Orleans's district attorney, Eddie Jordan, to seek charges against the doctor and her two assistants. Perhaps with a finger to the winds, Mr Jordan emerged in July saying he had failed to persuade a grand jury to issue an indictment.

More recently, another case spawned by the storm has been played out in a courtroom. This time, the alleged villains were a husband and wife who owned the St Rita's nursing home in St Bernard Parish. The couple, Sal and Mabel Mangano, stayed in the home along with 60 of their charges, 35 of whom died after the home flooded. Those who survived suffered greatly, and Mr Foti's office brought the couple to trial on charges of negligent homicide and cruelty to the infirm.

Much of the evidence seemed damning. Prosecutors were able to suggest strongly, for instance, that the Manganos had declined to evacuate their elderly patients because they didn't want to spend the money. All the other nursing homes in St Bernard were evacuated, and all but one of their 200 patients survived.

The Manganos did not benefit from the level of public sympathy afforded to Dr Pou. But they were acquitted on all charges last month after a trial that raised some basic questions about responsibility. Their lawyers, for instance, noted that the state had failed to execute its own plans properly. And perhaps nobody would have died if the federally built and guaranteed levees had done their job.

A third case is still awaiting adjudication. This one involves seven New Orleans police officers accused of shooting unarmed civilians in what has come to be known as the “Danziger Bridge incident”.

A week after the storm, police trumpeted the news that they had prevailed in a gun battle with thugs in the city's eastern quarter. But the story soon unravelled. Among the two people killed was a man with the mental capacity of a child. Four others were badly wounded. Survivors say police arrived at the scene suddenly and began opening fire on them.

A few facts have emerged. The officers who arrived at the scene were responding to an urgent radio call of “officers down”. When they arrived, they heard shots, saw a group of people running and began firing. Those who were fired upon by police say they were running from another group of people who shot at them.

As with the hospital and nursing-home cases, the main question revolves around intent. If the police did wrong, as it appears, was it in the course of trying to help other police who had reportedly come under fire? And why are these police on trial instead of the 200-plus who abandoned their posts during and after the storm?

If there's a lesson in the Katrina prosecutions, it may be something like this. After a tragedy like the hurricane, people are more forgiving than you might expect toward those they don't view as powerful. Ask them about the institutions they view as responsible for the damage, though, or for slowing down their reconstruction, and you see far less mercy.

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New Jersey

# Panic on the boardwalk

Oct 11th 2007 | ATLANTIC CITY
From The Economist print edition

## A headless city

THE troubled resort town on the New Jersey shore is no stranger to scandal and strife. Five former mayors of Atlantic City have pleaded guilty or have been convicted of some crime in recent years. Multi-million dollar casinos are steps away from crime-ridden neighbourhoods. A quarter of the 40,000 residents live below the poverty line. The city has just been dealt another bad hand: Robert Levy, Atlantic City's mayor, called in sick on September 26th and hasn't been seen since. His lawyer finally disclosed on October 9th that he was at home resting after spending time in a facility that treats depression and substance abuse. The next day he resigned. His extended absence has caused chaos.

Ordinarily, when the mayor was ill or travelling, Domenic Cappella, the city's business administrator, a sort of unelected chief operating officer, was in charge. He made sure rubbish was still collected and the police were still on the beat. Because this time there wasn't an apparent handover of power, many screamed no dice. One councillor even asked the courts to declare the office of mayor abandoned. William “Speedy” Marsh, the city council president and the second highest elected official, took over as interim mayor shortly after Mr Levy formally stepped down. He will now serve until the city council appoints a successor, who will serve until a special election is held next year.

Even before Mr Levy went AWOL a recall petition had started to circulate. Since his election last year his attendance at city council meetings had been sporadic. A local broadsheet discovered last autumn that he had misrepresented his Vietnam military record and was not a Green Beret, as he had claimed. Federal prosecutors have been looking into whether this embellishment illegally added to his veterans' benefit package.

Atlantic City matters. The city's dozen or so casinos add a useful $1.3m a day to the state coffers of New Jersey, as well as making up over 80% of the municipal budget. If the tourists are to keep coming, having a decent mayor would be advisable.

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Lexington

# Compassionate centrism

Oct 11th 2007
From The Economist print edition

Illustration by Kevin Kallaugher

**There's still life in the "faith agenda"**

THE lone Democrat in the White House did not have an easy time as the president's "faith tsar", back in 2001. John DiIulio was appalled by the lack of a serious "policy apparatus". He later complained that the White House was run by "Mayberry Machiavellis" who sacrificed everything for political gain. He quit after only seven months.

Yet today, happily ensconced in the University of Pennsylvania, Mr DiIulio has lost none of his enthusiasm for faith-based solutions to America's social problems. He has just published a new book, "Godly Republic: A Centrist Blueprint for America's Faith-Based Future" (University of California Press). He can talk eloquently for hours on the case for extending a helping hand to religious organisations. Particularly exciting, for him, is the idea that a Democratic administration could reinvigorate his faith-based policies and return them to their bipartisan roots.

Mr DiIulio is the ideal salesman for faith-based social services. He is one of America's leading political scientists—a man who has all the latest data at his fingertips, but who also knows his "Federalist Papers" and his de Tocqueville. In a world where people like to talk about Jesus changing their hearts, he presents the case for "faith" in scrupulously secular terms. He is also one of those rare things in professional America—a working-class boy made good who nevertheless clings on to his roots.

George Bush nicknamed Mr DiIulio "Big John". He grew up in a tough Italian district in South Philadelphia where he and his friends used to entertain themselves by trying to catch giant water rats. He was the first member of his family to go to university, and went on to do graduate work at Harvard partly because he could not decide whether to go into the building trade or open a hot-dog stand. His career was meteoric: he was awarded tenure at Princeton at 32. And he remains devoted, too, to the other Philadelphia. He works with disadvantaged children and prisoners. He tries to keep decent neighbourhood schools alive. The only time he has been abroad was to visit the Vatican.

But is Mr DiIulio right to think that there is still plenty of life in his idea? Or is he falling victim to the vice of all great salesmen—buying into his own hype? Mr Bush's "compassion agenda" encountered fierce resistance from both the left (who worried about the church-state divide enshrined in the constitution) and the right (who worried that "with government shekels come government shackles"). Legislation was stillborn. The promised $8 billion a year was squeezed to less than $2 billion. And the Mayberry

Machiavellis got their way. The White House Office of Faith-Based and Community Initiatives gave conference after conference in target states in 2003 and 2004. The very phrase “faith-based” now summons up images of political zeal rather than compassionate problem-solving. Mr Bush's critics accuse him of launching “faith-based wars” and supporting “faith-based science”. One White House figure added grist to the left's mill by talking dismissively of the “reality-based community”.

## Reality bites

But Mr DiIulio is nevertheless right that the idea still has a lot of life left in it, for two reasons. First, America has a big problem with what people now call “social exclusion”. Every great city has homeless people on the streets. Over half of black males in the inner cities drop out of school without graduating. Some 2m children have a parent in prison. Second, “people of faith” do a disproportionate share of the heavy lifting when it comes to dealing with exclusion. These are the people who man the soup kitchens and look after prisoners' children. They are particularly important in the inner-city minority communities that are most ravaged by poverty and crime. Over a third of the institutions that provide social welfare in big cities are religious.

In his new book Mr DiIulio argues vigorously that there is no constitutional problem with giving public money to religious organisations—provided the rules are written tightly and monitored carefully. The Founding Fathers did not intend to banish religion from the public square any more than they intended to create a Christian nation. And much of America's government work is currently subcontracted to “proxy institutions”. If religious proxy institutions can do the job effectively, then there is no reason to discriminate against them.

This is the sort of argument that infuriates the Democratic Party's powerful secular wing. Nevertheless, Mr DiIulio hopes that a future Democratic president will prefer pragmatism to what he regards as misguided ideology. The origins of the faith-based idea were bipartisan. The Clinton administration endorsed “charitable choice” (which let religious organisations compete on a level playing field) in his second term. Andrew Cuomo, Bill Clinton's second secretary of housing, established the first “faith centre” in the federal government. Mr DiIulio advised both Al Gore and Mr Bush. Two-thirds of American states have now enacted “faith-friendly” laws.

Mr Gore's enthusiasm for “faith” is shared by all the leading Democratic candidates. Hillary Clinton in particular has gone out of her way to emphasise her support for faith-based social services. In January 2005 she told a group of pastors in Boston that people who see “God's work in the lives of even the most hopeless and left behind” are most likely to “go out onto the street to save some poor, at-risk child.”

There is an element of Machiavellianism about this: Democrats currently have a better chance of winning over disillusioned evangelicals than for many years. But there is an element of common sense too. Americans are increasingly worried about poverty, but are sceptical about government bureaucracies. Faith-based institutions appear to offer a solution to the conundrum. Mr DiIulio shows no desire to return to Washington. But DiIulionism may return there nonetheless.

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Education in Venezuela

# Fatherland, socialism or death

Oct 11th 2007 | CARACAS
From The Economist print edition

Illustration by Claudio Munoz

**Venezuela's schools receive orders to create the “new man”**

Get article background

VENEZUELAN parents can have any schooling they like for their children—so long as it's red. That is the message from President Hugo Chávez and his elder brother Adán, a Marxist physics teacher who is the education minister. It is spelt out in a 549-page draft education plan recently leaked to the press. It was expressed, too, at the start of the school year last month, when television showed images of high-school pupils chanting “fatherland, socialism or death!” and singing songs in praise of the president.

For many teachers and middle-class parents this smacks of an Orwellian nightmare. Fears of government intervention in private schools brought them on to the streets in the early years of Mr Chávez's presidency, and helped provoke the coup that briefly ousted him from power in 2002. Back then, the government denied that it was seeking to indoctrinate youngsters. But both Chávez brothers now say that the aim of the new education plan is “the formation of the new man”.

That phrase was coined by Ernesto “Che” Guevara in the early years of the Cuban revolution. His “new man” would be motivated by moral rather than material incentives. Cuba's communist government has pursued this chimera in vain for decades. Now its Venezuelan ally is embarking on the quest. “The old values of individualism, capitalism and egoism must be demolished,” says the president. “New values must be created, and that can only be done through education.”

The government has neither confirmed nor denied the authenticity of the leaked draft curriculum. But its contents chime with many official statements. It says that children will be taught that capitalism is “a form of world domination” associated with imperialism. They will learn about liberation movements, but only socialist ones. Their study of Latin American economic integration excludes the Andean Community; the president cancelled Venezuela's membership of this because it was dominated by “neoliberal” thinking.

By their mid-teens pupils will need to show “a critical attitude towards any attempt at internal or external aggression”. They will also have to develop “community-information mechanisms” (ie, say opponents, a network of spies) to defend national sovereignty. Officials admit that this is an ideological project, but so are all education curriculums, they say.

Already, according to the education ministry, 150,000 teachers have taken part in courses to prepare

them for the new “Bolivarian Education System”, recently defined by the president as “red, very red”. Even those sympathetic to the idea remain confused, however, because they have yet to receive a copy of the curriculum. Nonetheless, the new approach is being gradually adopted by state schools, and will be applied to private ones next year. About a fifth of Venezuelan children are taught in private schools, and the government says that these will not be abolished. But the president has warned them that if they decline to implement the new curriculum they will be taken over by the state.

Mr Chávez has always seen education as the key to making his “revolution” irreversible. He can claim an electoral mandate for its reform. During the campaign for December's presidential election (in which he won 62% of the vote) he cited Antonio Gramsci, an Italian Marxist who preached the need to replace capitalist with socialist “hegemony”, by taking over those institutions that transmit the values of society. The principal carriers of the capitalist virus, Mr Chávez said, were the church, the schools and the media.

In May he refused to renew the broadcasting licence of the main opposition television channel. Since the Catholic church has influence over private schooling, the education reform hits the other two targets in one blow. Under the new plan, Catholic doctrine could still be taught in schools, but would no longer be compulsory.

Venezuela's 1999 constitution, inspired by Mr Chávez, guarantees “respect for all currents of thought” in education. This is not one of the articles he wants to change in a referendum due in December. But it seems as if it will be disregarded. Asked recently about the 40% of voters who have consistently opposed the president, Adán Chávez said those who were “not oligarchs” would soon recognise their error. That theory could soon be tested again on Venezuela's streets.

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Nicaragua

# Ortega's crab dance

Oct 11th 2007 | MANAGUA
From The Economist print edition

Reuters

**Ortega does it his way**

## History repeated as opportunism

Get article background

IF THERE is a lesson to be learned from Che Guevara, it is that revolutionaries are well advised to die young lest they make fools of themselves. That is the risk facing Daniel Ortega, Nicaragua's president. He first came to power in 1979 as part of an idealistic revolution against the dictatorship of Anastasio Somoza. His Sandinistas lost an election in 1990, because of the damage caused by a civil war launched by American-backed *contras* as well as their own economic mismanagement. In January Mr Ortega returned to power after a split in the ruling Liberal party gifted him last year's presidential election.

He campaigned on a platform of unity and moderation. But his conduct in government has been opportunist and erratic. Only two others of the original nine-man Sandinista directorate still support him; his wife, Rosario Murillo, is now his most influential adviser. In nine months in office, four ministers, as well as numerous junior officials, have been fired for speaking out of turn. According to Manuel Ortega (no relation), the president's chief of staff in the 1980s, his new government's social programmes are designed “to create and maintain an electoral base” rather than to help the poor.

While quarrelling with old friends, Mr Ortega has assembled an eclectic range of new allies. He has struck some nebulous deals with Venezuela's Hugo Chávez, who has offered power plants, tractors and factories. These will be financed with soft loans from Venezuelan state banks, according to Miguel Gómez, the Venezuelan ambassador in Managua. Mr Ortega has also welcomed Iran's president, Mahmoud Ahmadinejad, who has offered $350m for a new port.

The president has allied himself with reactionaries at home. To neutralise opposition from the Catholic church, he has strongly backed a law banning all abortions, even when the mother's life is in danger. Another ally is Arnoldo Alemán, a right-wing former president convicted of corruption who still controls a faction of the Liberal party. Mr Alemán denies having a “pact” with Mr Ortega, but he has in practice been freed: a new law cut his sentence from 20 to five years; his house arrest has been relaxed to cover the whole country. The two men both favour a constitutional reform to create a parliamentary system, which opponents say is a device for them to share power indefinitely.

The United States ambassador openly campaigned against Mr Ortega's election. Since then, relations have been correct. The Americans donated $1.4m in aid after Hurricane Felix ravaged Nicaragua's Atlantic coast in September, and American troops shuttled in supplies by helicopter and aeroplane. Although the American embassy protested when the government seized tanks from a local subsidiary of Exxon Mobil to store Venezuelan petrol, the dispute has been settled.

Mr Ortega can still sound a bit like Che Guevara. In a speech to the United Nations General Assembly last

month, he railed against the “avarice of imperialist capitalism”. Shortly afterwards, however, his government signed a new loan agreement with the IMF. It is “committed to macroeconomic stability,” says Antenor Rosales, the head of the central bank. Exports are rising and economic growth is steady. But for how long? Arturo Solórzano, an economic official, notes that although other parts of the government say they want to support foreign investment “their actions make it difficult.”

The opposition is coalescing around Eduardo Montealegre, the reformist Liberal who came second in last year's election and who recently gained the allegiance of José Rizo, Mr Alemán's candidate. Everything suggests that Mr Ortega will continue to steer a zigzag course. Where that will take him may depend as much on the opposition as on his own assorted friends.

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Argentina

# The Jewish card

Oct 11th 2007 | BUENOS AIRES
From The Economist print edition

## Néstor Kirchner's unusual alliance

Get article background

THE best-defended building in the centre of Buenos Aires is not a bank or a barracks. It is the headquarters of AMIA, a Jewish cultural centre. Security guards require government-issued identification of all visitors, who must then pass through a pair of thick metal doors. The reason: in 1994 AMIA was hit by a car bomb that killed 85 people.

Nobody has yet been convicted of the outrage. In 2003 Britain detained Iran's former ambassador to Buenos Aires, whom Argentina accused of helping the bombers. But he was released for lack of evidence (as were five local suspects). Last year an Argentine court formally requested the extradition of eight former Iranian officials.

Argentina's Jewish community, the largest in Latin America, has found a somewhat unlikely ally in Néstor Kirchner, the country's left-wing president. His Peronist party long had an anti-Semitic streak: its founder, Juan Perón, blocked Jewish migration to Argentina and gave refuge to scores of Nazi leaders after the second world war.

But Mr Kirchner has gone out of his way to court Argentine Jews. He has created a special commission to re-investigate the AMIA case. He meets Jewish leaders around five times a year; his wife, Cristina Fernández, who is expected to succeed him in the presidency after an election on October 28th, visited Israel in 2005.

Mr Kirchner has also backed moves to try crimes committed by the army during its “dirty war” against leftist guerrillas in the 1970s. Although Jews make up just 1% of the population they account for 8% of those who “disappeared” in that period. On October 9th Christian von Wernich, a Catholic priest, was sentenced to life imprisonment for complicity in murder, torture and kidnapping. One of those who was tortured in his presence was Jacobo Timerman, a prominent Jewish newspaper editor.

Mr Kirchner devoted much of his speech at the UN last month to criticising Iran's failure to extradite the suspected officials. In this, he seems to be trying to offset his alliance with Venezuela's Hugo Chávez, who is friendly with Iran. Although her husband's relations with George Bush have been strained, Ms Fernández may reckon that a shared dislike of Iran will bring closer ties with the next American president.

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Canada

# A place apart

Oct 11th 2007 | ST JOHN'S
From The Economist print edition

**Heard the one about the rich Newfoundlander?**

**Time to swap migrants for tourists**

WRAPPED in Atlantic mists and storms three hours' flying time east of Ottawa, it was only in 1948 that Newfoundland and Labrador voted by a slim margin to relinquish its status as a British colony to become the tenth province in Canada. To judge from the number of pre-confederation flags in the capital, St John's, many still wonder if they made the right choice. The green, white and pink standard, resembling a washed-out Irish tricolour, is flown from rooftops, draped in shop windows, stencilled on T-shirts and even iced on cookies sold to tourists. “It represents a time when we had more pride,” says Mark Dobbin, the boss of a helicopter service company. “We're not that long in Canada and we haven't been treated very well,” he adds.

Newfoundlanders, it is true, are the butt of many a Canadian joke in which they are cast as village idiots. Adding injury to insult, they feel that a miscellany of outsiders has long reaped the lion's share of their immense natural wealth. The villains range from English fish merchants, who tried to prevent settlement in the 1600s for fear of competition, to Quebec's provincial government, which secured an unbreakable, 65-year contract in the 1960s for embarrassingly cheap hydroelectric power from Churchill Falls. Canada's federal government is blamed for mismanaging the cod fishery, causing it and the economy to collapse in 1992.

Newfoundland's premier, Danny Williams, has tapped this sense of aggrieved nationalism, positioning himself as the defender of the province's resources and the leader who will insist that there are no more “giveaways”. Since he was first elected in 2003, he has feuded with Canada's prime ministers about fiscal transfers, fought the big oil companies for a greater share of the revenues from offshore fields, and debated with Sir Paul McCartney and the former Beatle's now-estranged wife on television over the right of sealers to work. His pledge to make the 500,000 Newfoundlanders “masters in our own house” helped him to a landslide victory in a provincial election on October 9th. “We're finally going to get what we deserve,” he told cheering supporters.

Having won a second term, however, Mr Williams now faces an unusual problem. With three offshore oilfields and a fourth on the way, the perennial poor man of Canada is getting rich quick. By 2009 Newfoundland is likely to join Ontario, Alberta and British Columbia as the only provinces whose tax base is strong enough not to qualify for a federal top-up under a scheme to equalise provincial finances, says Wade Locke, an economist at Memorial University in St John's. The psychological impact is difficult to predict. Will Newfoundlanders manage to put behind them their sense of grievance and loss—and the nationalism that goes with it?

They are not there yet. The budget is in surplus and economic growth of 2.8% in 2006 surpassed that of all but three other provinces. In St John's, the centre of the oil industry, there are help-wanted signs in many shop windows. But in small fishing towns around the coast, unemployment runs at over 20%. Many of the fishermen left stranded when the cod disappeared have switched to shrimp and snow crab, says Earle McCurdy, president of the fisheries union. But employment at fish-processing plants has fallen by more than half, to 13,000. Were it not for government subsidies, many more would have closed.

Away from the capital, hopes are pinned on mining and tourism. A big nickel mine began production in 2005 at Voisey's Bay in Labrador. Mining companies are investing a record C$160m ($160m) in exploration this year. “I've been in the business for 40 years and I've never ever seen a boom like this,” says Gerry O'Connell, who heads the provincial mining chamber.

Picturesque fishing villages with multicoloured clapboard houses could draw tourists. But the industry is underdeveloped. The government has only recently started to take it seriously, says Mike Clewer, who runs Humber Valley Resort on the west coast. Its super-sized holiday homes in the woods near a lake and golf course have been overlooked by Canadians but snapped up by Europeans and Americans. “You've got something the world wants: a place that hasn't been ruined yet,” says Mr Clewer.

Even so, some 15,000 people, most of them young adults, leave the province each year to find work, many in Alberta. There are tales, perhaps apocryphal, of villages where all the men of working age have left. The population has been shrinking for years. Deaths outnumbered births in 2006, one reason for Mr Williams's campaign promise of a baby bonus. “We can't be a dying race,” he said.

The province is trying to lure its wandering sons back home to work on job-creating infrastructure projects. These include a second refinery at Come By Chance (a misnomer, it is to be hoped) and the building of a vast production platform for the new offshore field. Scott Lynch, a migration specialist at Memorial University, says that there will be labour shortages unless the outflow of people is reversed.

Achieving that won't be easy. Still, unless the price of oil plummets, Newfoundland is heading for unaccustomed prosperity. Will this finally reconcile Newfoundlanders to the Canadian confederation? “If things improve and out-migration stops, a lot of bad feeling will disappear,” predicts John Crosbie, who has been both a federal and provincial cabinet minister. He calls talk of Newfoundland going it alone, even before Quebec does, “romantic nonsense”.

Mr Dobbin, the businessman, agrees—up to a point. For he adds that he can imagine circumstances in which the province and its feisty premier get into a disagreement with Ottawa about resource development and that this spirals out of control. “We're not rational when it comes to fights and arguments,” he says.

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China's Communist Party congress

# Still in Mao's shadow

Oct 11th 2007 | BEIJING
From The Economist print edition

AFP

**And 1.3 billion people are still in the dark about what their leaders want**

Get article background

IN THE absence of serious elections, the big event in Chinese politics is the five-yearly congress of the ruling Chinese Communist Party. From October 15th Hu Jintao, who has led the party since the last congress, will preside over a gathering that offers him the chance to demonstrate his authority and explain his vision for China in the next five years. On neither count is he expected to inspire.

The 2,217 delegates, most of them officials chosen in rigged elections to attend the meeting in Beijing's Great Hall of the People, will voice no criticism of Mr Hu's record. He has done next to nothing to fulfil repeated promises of greater democracy within the party. The congress, expected to last about a week, will be as tightly scripted as the 16 others in the party's 86-year history. Delegates will name a new Central Committee of around 200 members. This will meet at the end of the congress to name a new Politburo to rule the country until 2012. Mr Hu and his colleagues will ordain the outcome.

But rumours abound that Mr Hu has been having trouble appointing the exact Politburo he would like. Observers had long assumed that the Politburo's Standing Committee—the apex of power in China—would include a new member to be groomed as Mr Hu's heir-apparent. This would be Li Keqiang, the 52-year-old party chief of Liaoning Province in the north-east. Now rumours suggest that Mr Hu has been forced by colleagues to promote two heirs-apparent. The second is said to be Xi Jinping, 54, party chief of Shanghai.

The two men will presumably have to contend for the top slot in 2012. Chinese politics is too opaque to know how the succession of either man would change the way the country works. This was not always so. In the build-up to the party's 13th congress in 1987 the emergence of Zhao Ziyang as Deng Xiaoping's chosen successor appeared to herald an era of liberalisation, Mr Zhao being a noted reformist. But he was deposed by hardliners two years later during the Tiananmen Square unrest and kept under house arrest until he died in 2005. Since the early 1990s Chinese leaders have succeeded in presenting a far more unified front. Mr Hu, Mr Xi and Mr Li have no apparent policy differences.

They could represent different factions, however. Mr Xi, a popular theory has it, is closer to Mr Hu's predecessor, Jiang Zemin, who remains a behind-the-scenes force in Chinese politics at the age of 81. One of Mr Jiang's pet projects, a glass and titanium egg-shaped opera house costing $360m opposite the Great Hall of the People, opened last month after years of controversy about plonking such an extravagant oddity in the nation's political heart. On a tour of the building this week for the foreign press, a construction official told *The Economist* that Mr Jiang had sung to staff there during a recent inspection.

Both Mr Xi and Mr Li (who both have degrees in law) have received considerable attention from China's state-controlled media. Mr Li's leadership has been praised for a massive programme of building affordable housing and clearing slums. Mr Xi's leadership has been implicitly linked with Shanghai's recent accomplishments, even though he only took over as the city's chief in March following the dismissal of his predecessor, Chen Liangyu, for alleged corruption. Among notable events since then have been the topping out in September of the Shanghai World Financial Centre, which will be the country's tallest building and, says the official press, the third-tallest in the world. Mr Xi enjoys the additional distinction, which China's official press prefers not to mention, of being the son of a late revolutionary leader, Xi Zhongxun. Such “princelings” appear to be on the rise.

If both men are elevated to the Standing Committee, the country's obscure politics will be shrouded by another veil of uncertainty. After Mr Hu was promoted to the Standing Committee at the party's 14th congress in 1992, it was taken almost as read that he would eventually succeed Mr Jiang (even though he was Deng's choice, not Mr Jiang's). Liberals in the party have long argued that there should be more open competition for top posts. But Mr Hu is not in favour of elections for his job. The outcome is more likely to be determined by factional squabbling.

In the build-up to the congress there has been a ritual upsurge of complaints by liberals that the party is stalling on the issue of making China more democratic. In the latest edition of *Yanhuang Chunqiu*, a Beijing monthly, Mao Zedong's former secretary, Li Rui, gave warning of looming chaos in China unless it embraces democracy. Mr Hu, however, though keen to impress the rest of the world with China's openness as it prepares to host the Olympic Games, fears the opposite is true: that political reform could trigger a tidal wave of discontent from democrats and the underprivileged.

Indeed, he shows no interest even in more cautious suggestions. Early this year a party journal, *Study and Pursuit*, published proposals for reforming the party- congress system. These included convening congresses annually, imposing a 50% limit on the proportion of delegates who hold official rank and electing fewer delegates, in order to cut costs and encourage genuine debate (of which there is currently none). This year the number of delegates has actually been increased by more than 100 compared with 2002. So the applause for Mr Hu will be even louder.

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Tasmania

# Bandicoots, beware!

Oct 11th 2007 | SYDNEY
From The Economist print edition

**Trees mean votes (mainly in the cities)**

Get article background

THE Tamar Valley in northern Tasmania and Point Piper in Sydney have little in common except stunning water views: one looks across Bell Bay, the other to Sydney Harbour. One of Sydney's richest districts, Point Piper is home to Malcolm Turnbull, Australia's environment minister. The two places are joined by a row over Mr Turnbull's decision this month to approve a pulp mill at Bell Bay. An environmental campaign over the mill is threatening Mr Turnbull's hold over his constituency around Point Piper. As Australia prepares for an election, this makes it a symbolic flashpoint of the conservative Liberal government's bid to win a fifth term.

The mill is being built by Gunns, a company that controls most of Tasmania's timber industry. Gunns has divided Tasmanians over its penchant for secrecy and for doing less-than-transparent deals with the island state's Labor Party government. It exports about 3.2m tonnes of woodchips a year, mainly to Japan. Gunns says that the A$1.7 billion ($1.5 billion) mill, the biggest private investment in Tasmania, will boost the state's struggling economy by turning chips into paper pulp at home, rather than shipping them off raw. Critics reckon the mill will consume more timber than the firm now exports, most of it initially from native rather than plantation forests.

Drawn by its wilderness, wines and food, Australians are visiting Tasmania in large numbers. A campaign against logging the island's forests has struck a nerve. Bell Bay is just 22 miles (35km) north of Launceston, Tasmania's second-biggest city. The mill's proposed site adjoins a habitat for three endangered marsupials: the Tasmanian devil, the spot-tailed quoll and the eastern barred bandicoot. Warwick Raverty, a scientist involved in a Tasmanian environmental inquiry earlier this year, says the risk of sulphide fumes in the site's static air conditions make it “one of the worst sites” for a pulp mill.

After the Tasmanian government abruptly ended that inquiry, Mr Turnbull called for his own report from Australia's chief scientist. It covered only areas where the federal government has control, including the impact of dioxins in the 64,000 tonnes of effluent the mill will pump into the waters of Bass Strait daily. Based on that report, Mr Turnbull has given approval with 48 conditions. He says they are the “most stringent” for any pulp mill: “It's based on science, not politics.”

The politics, though, may be just starting. Since Mr Turnbull entered Parliament three years ago, new boundaries have trimmed his majority in his constituency of Wentworth. He could lose it if a national opinion poll on October 8th, giving the main opposition Labor Party a 12-point lead, is mirrored in the forthcoming election. A September poll in the *Wentworth Courier*, a local newspaper, found 98% of readers against the pulp mill.

Mr Turnbull's new constituents include an inner-city café crowd among whom conservation issues are big. Geoffrey Cousins, a constituent who has waged the strongest anti-mill campaign, is more at home in the Point Piper set. He is a businessman and former associate of both Mr Turnbull and John Howard, the prime minister, who is also facing a tight battle in his Sydney constituency of Bennelong. Mr Cousins plans to mount a legal challenge against the mill's approval, and to lobby ANZ, one of Australia's biggest banks, not to finance its construction.

For its part, Labor supports the mill for its jobs, hoping it will help win back two northern Tasmania constituencies. Its stand has muddied the waters for protest voters against Mr Turnbull. Yet Tasmania's pristine skies and forests are now such strongly embedded images among city Australians that the minister, and his government, can take nothing for granted.

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Myanmar

# A chink in the armour

Oct 11th 2007 | BANGKOK
From The Economist print edition

**World pressure makes the junta budge, but not far enough for most**

Get article background

BURMESE exiles and political analysts were justifiably cautious about the military regime's announcement on October 8th that it had appointed a “minister for relations” to negotiate with Aung San Suu Kyi, the country's pro-democracy leader. The move is the regime's most significant in several years and follows a visit by Ibrahim Gambari, the United Nations' special envoy to Myanmar, who conveyed the world's revulsion at the violent crackdown last month. But whether it will lead to real change is, at best, uncertain.

General Than Shwe, the junta's chief, had told Mr Gambari he would talk to Miss Suu Kyi if she abandoned her support for international sanctions against Myanmar and stopped being “obstructive”. A few days after the envoy's visit, Burmese state television showed pictures of Miss Suu Kyi meeting him—the first time it had shown her face since the junta put her back under house arrest four years ago.

That the chosen go-between is Aung Kyi (no relation), a general said to be a moderate, gave some encouragement. He recently struck a deal with the International Labour Organisation to allow the UN agency's office in Yangon, Myanmar's main city, to receive complaints about alleged forced labour. So he is seen as a serious negotiator. But the regime has appointed such go-betweens before with no lasting results. In 2002 Miss Suu Kyi met an intermediary several times and even General Than Shwe himself. This led to her being freed, but she was rearrested the next year. Since then the regime has talked vaguely of a seven-point road map to democracy but made little progress along it.

Miss Suu Kyi has remained incommunicado at home, as she has for 12 of the past 18 years. But her National League for Democracy said it would only agree to talks with the regime if it set no preconditions. It suspects, with good reason, that the generals will seek get-out clauses so they can abandon the talks—and blame their collapse on the opposition—once the international pressure has died down.

Western powers struggled at the UN Security Council this week to get veto-wielding China and Russia to agree a non-binding “statement” condemning Myanmar's crackdown. An early draft's threat of “further steps” was too much for China, one of Myanmar's main trading partners, which opposes sanctions. Western diplomats hope that China is at least talking tough to the regime in private.

Myanmar's fellow members of the Association of South-East Asian Nations (ASEAN) have stepped up their rhetoric. Lee Kuan Yew, Singapore's elder statesman, said in a newspaper interview this week that the Burmese regime's economic incompetence would eventually bring its downfall. Malaysia has called for unconditional talks with the opposition.

However, ASEAN members do business with Myanmar and show few signs of being prepared to sacrifice it to put pressure on the regime. The state oil company of Thailand—Myanmar's biggest export market—said it still expected to sign contracts soon to buy more natural gas from the regime. So far, despite calls for Myanmar's suspension from ASEAN, it looks as if the other members are ready to sit next to dictators with fresh blood on their hands when the regional block celebrates its 40th anniversary next month.

The regime seems so far to have successfully bought off India, another important neighbour. India hopes soon to sign a deal to develop transport links between its landlocked north-east and Myanmar's Bay of Bengal coastline. Of all the potentially strong influences on Myanmar's regime, India has shown the most craven response to its brutality, even though it recently found itself cut out of a lucrative energy project when the regime suddenly decided to cut a deal with China instead.

A serious negotiation between the regime and the opposition, followed by a peaceful transition to quasi-democracy, is not entirely out of the question. But it is hard to imagine it happening without firmer

pressure from Myanmar's neighbours, or much clearer signs that the regime is losing its grip on the country. It has suffered a few defections, including that of a diplomat at the Burmese embassy in London. There have been reports of unrest in the army at the violence it has been ordered to inflict on revered Buddhist clerics. But in such a closed, repressed country, confirming such reports is impossible.

Little has been heard so far from the country's sizeable ethnic-minority militias. Most of these have, since the early 1990s, reached ceasefires with the regime. If they rose up again now, they might hamper the army's ability to contain an uprising in central Myanmar. Maybe this could provide the long-awaited tipping point to bring the regime crashing down. But as yet it seems firmly, if bloodily, ensconced.

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Repression in Yangon

# Waiting for the knock on the door

Oct 11th 2007 | YANGON
From The Economist print edition

**George Orwell's best book about Myanmar: not “Burmese Days”, but “1984”**

Get article background

WHERE the evening air used to hum with the murmur of prayer and tinkle with temple bells, an eerie silence, punctured only by the piercing cawing of crows, now hangs around the Shwedagon, Myanmar's holiest Buddhist pagoda. Apart from some young novices, monks are nowhere to be seen. Few pilgrims brave the watchful eyes of the heavily armed soldiers by the gates. Outside, where the monks started their peaceful processions last month, stand six fire engines to deter new protests.

It is not known how many monks and other protesters have been killed, wounded or detained. Some monasteries have been turned into army barracks. Rows of green army boots line the steps outside. Those who have been freed speak of horrific conditions. One monk said that in his detention centre, hundreds, including novices as young as seven, were confined in small rooms with no toilets and no room to lie down. Some had head wounds, but none received any medical treatment.

To win release they had to sign confessions and pledge never to join protests again. The army also wanted them defrocked. But only their senior abbot could do this and he told the soldiers they would have to kill him first. So the monks were packed off to their villages and forbidden ever to return.

The army's attention has now shifted to laymen, with a curfew giving cover for nightly raids in Yangon. The government admits to more than 2,000 detentions. It might be many more. The United Nations opened a telephone hotline to serve its own staff and foreign aid organisations. The number appeared on the internet and it was deluged with appeals for help. Sometimes screams could be heard in the background. More and more people are calling with lists of the missing, including a ten-year-old child seeking his parents. The International Committee of the Red Cross has been denied access to detention centres.

On the surface, daytime life in Yangon has returned to normal. But people go about their daily chores with grave faces and try to avoid talking to foreigners, or even smiling. The few who still dare to speak stress that the brutality towards the monks has touched a deep nerve. In a devout society, the future of the regime has become a religious issue. Many believe it has doomed itself.

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Sri Lanka's Muslims

# Homeless and homesick

Oct 11th 2007 | PUTTALAM
From The Economist print edition

**An unhappy and forgotten minority**

Get article background

MOHAMMED KHANY tries not to think of home, a small farm in Mullativu, northern Sri Lanka. In 1990 he was evicted by the Liberation Tigers of Tamil Eelam, along with more than 75,000 other Muslims from the northern province. Like most, he fled to Puttalam. He has lived there ever since, on a sandy peninsula where he cannot farm, in a coconut-leaf hut affording little respite from the sun or the monsoon rains. “If I think of home I'll get sick,” he says. He relies on the odd day of manual labour to feed his family.

The Tigers' campaign against Muslims, some 8% of Sri Lanka's 20m people, is a largely forgotten episode in the long war between Tamil separatists and the Sinhalese-dominated government. But it continues to do great damage, especially in the east, where in 1990 the rebels slaughtered up to 1,000 Muslims. One obvious effect has been worsening relations between Muslims and Tamils in eastern Sri Lanka.

Until the 1990 pogrom, these communities co-existed fairly harmoniously. A shared sense of discrimination at the hands of the Sinhalese majority led some young Muslims to join the Tigers. But most shunned the struggle for a “Tamil Eelam”—an independent “homeland” in the north and east of the island. The Tigers came to see Muslims as a barrier to their full control of the north-east. Today in the east, where Muslims lost large areas of land as they fled the killers, Tamils and Muslims live in uneasy segregation. Some Muslim groups have guns. But they are mostly used, if at all, for crime rather than political violence.

Potentially more dangerous in the east is the growth of Islamic fundamentalism, as the area's Muslims strive to forge a sense of independent identity. More women in the east wear the long black *abaya* and ultra-orthodox Islamic groups have grown more popular. The conflict in Sri Lanka gives the global revival of Islam a particular flavour. Whereas the mostly-Hindu Tamils and mostly-Buddhist Sinhalese have language and history as well as their faith to unite them, the country's Muslims are defined only by their religion.

Communal tension should not be exaggerated, however. In Puttalam Muslims speak affectionately of their old Tamil neighbours. The biggest tension is with the area's original Muslim inhabitants, who have grown tired of the newcomers taking their jobs and, increasingly, buying their land. “Northern Muslims always think everyone can live together,” says Mujeeb Rahuman, who was 14 when his family was kicked out of its northern home and who has escaped the camps of Puttalam to run the Muslim Information Centre in Colombo, a human-rights group. The easterners, he goes on, want autonomous Muslim regions. He might add that southern Muslims seem mainly unbothered by the plight of their fellows in the west and east.

Largely because they are dispersed geographically, there is little sense of a common Sri Lankan Muslim identity.

This is reflected in politics. The Sri Lanka Muslim Congress (SLMC), formed in response to the plight of Muslims in the east, has not done well in the south, where Muslims often align themselves with mainstream parties. At the last parliamentary elections, in 2004, the SLMC, damaged by infighting, won just 2% of the vote.

In Puttalam, meanwhile, the long-displaced continue to suffer as the war flickers and flares. In one camp, men describe the excitement caused by the ceasefire agreement signed in 2002. Many returned home, most to find their houses occupied by displaced Tamils, or rebels, or destroyed. Those who stuck it out were once again expelled by the Tigers when the ceasefire crumbled last year.

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Sumo wrestling

# Heavy petting

Oct 11th 2007 | TOKYO
From The Economist print edition

**A gruesome death hits Japan's already ailing national sport**

AFP

**Hawaiian halcyon days**

THE gash on his forehead was from a bottle smashed against it. Bruises tattooed his body, from cigarette burns on his legs to the marks left by a metal baseball bat. Takashi Saito, a 17-year-old junior-level sumo wrestler, who competed under the name Tokitaizan, twice tried to run away from the Tokitsukaze stable, his training camp. But he was brought back and beaten by senior wrestlers, who were following the example set by the stablemaster, Junichi Yamamoto. In sumo this bullying is called *kiai-ire*, or "instilling spirit"; wrestlers refer to it as "petting".

The death of Tokitaizan during a training match in June, after a particularly harsh bout of abuse, led to the expulsion of Mr Yamamoto from the sport on October 5th by the Japan Sumo Association (JSA), for "severely damaging public trust". It is only the second time a stablemaster has been banned since the organisation was formed in the 1920s. The police are investigating the incident. They may file charges of assault and manslaughter against the stablemaster and possibly some wrestlers too.

It is only the latest trouble facing Japan's national sport, which has a history of more than 1,500 years. The popularity of sumo is in severe decline. Ticket sales have fallen for years. Moreover, there are fewer recruits to the sport. The JSA approved 87 new trainees in 2006, compared with 223 at its peak in 1992. In July, for the first time since records have been kept, the JSA was forced to cancel the testing of recruits when no one showed up for the traditional induction exams. Young Japanese men reject the brutal training and regimented lifestyle, which includes communal living and mundane chores in the stables. Some who planned to train as wrestlers are said to have pulled out after Tokitaizan's death.

Meanwhile, the sport of Japanese emperors has been dominated by foreigners. In the 1990s two Hawaiians, Akebono (pictured on the right) and Musashimaru (left) led the pack. Today, the only *yokozuna*, or grand champions, are Mongolians, Asashoryu and Hakuho. And Asashoryu has caused trouble, from topknot-tugging (inadvertent, he claimed) during a bout and faking injuries, to rumours of match-fixing and tax evasion.

All this has thrown an uncomfortable spotlight on the insular and opaque JSA. It is accused of tolerating the sport's unsavoury practices, from possible match-rigging to the abusive treatment of initiates. In 1996 two former wrestlers who dared disclose match-rigging died shortly afterwards, hours apart, of the same respiratory ailment. And the JSA turned a blind eye to Tokitaizan's suspicious death until the boy's father went to the press and the police. Since 1989 four other young men have died of "heart failure" during training, reports *Bunshun*, a weekly magazine.

There are calls for the JSA to clean up sumo. And the dirt piles up. The head of another stable, Musashigawa, this month came under police investigation for assaulting a trainee. In the case of Tokitaizan, the JSA directors punished themselves by cutting their salary for a few months. In the past, the JSA sued publications for defamation following articles that alleged match-fixing. Now they have a lot more on their hands.

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Indonesia and Malaysia

# No brotherly love

Oct 11th 2007 | BANGKOK
From The Economist print edition

**Discord across the Malacca strait**

INDONESIANS were gobsmacked to hear the Malaysian tourism board's new advertisements, which feature the old song “Rasa Sayang”. Hey, they cried, that's *our* tune! The song's title means “Feeling of Love”. But unloving Indonesians cursed their neighbours for “stealing” part of their cultural heritage, just as they are also accused of filching Indonesian art forms such as *batik* fabric making and *wayang* shadow-puppetry. Furious politicians in Jakarta demanded that their government sue for breach of copyright, or something.

The chances of any such legal move seem slim: no one knows who wrote the song, or when, or where. Malaysian ministers argue that it has been sung in both countries for ages and so belongs to both. A retired Western diplomat recalls being taught to sing it on his first visit to Malaysia, as an aid volunteer, back in 1970.

The “stolen” tune has provided the background music to a rising discord, mainly over how Malaysia treats the millions of Indonesians working there, legally and illegally. In June Indonesian newspapers published a photograph of an Indonesian maid clinging to a rope made of bed-sheets to descend from an apartment block in Kuala Lumpur and escape her “abusive” employers. The Indonesian embassy there said there were 1,200 cases of abuse of Indonesian maids last year.

In August anti-Malaysian protests spread across Indonesia after plain-clothes police beat up the Indonesian referee of the Asian Karate Championship, being held in Malaysia's capital. This week Indonesia lodged a formal complaint after two of its citizens—one a diplomat's wife—were allegedly mistreated by Rela, a thuggish volunteer force that the Malaysian government uses to track down illegal immigrants. There were calls in Jakarta's parliament for a boycott of Malaysian goods.

Malaysia's prime minister, Abdullah Badawi, and Indonesia's President Susilo Bambang Yudhoyono, have tried to calm things. In February Mr Yudhoyono gave Mr Badawi a medal and called him “a true friend in good and bad times”. But relations are brittle. Nobody is expecting a return to the early 1960s, when Indonesia pursued *konfrontasi*, armed confrontation, with the newly formed Malaysia. But it is only two years since both countries sent warships to assert competing claims to an oil-rich patch of sea off Borneo.

Accidents of colonial history—Indonesia was the Dutch-run bit of the East Indies, Malaysia the British bit—help explain the rows over territory and culture. Each country cultivates its own version of a common language, Malay, which ought to unite them but often divides. This week Malaysia's government announced a review of its need for foreign workers and talked of finding them elsewhere. But proximity and cultural and linguistic links make Indonesians the best solution to Malaysia's labour shortage, and Malaysia the best solution to Indonesia's job shortage. It is a pity they cannot stop scrapping and accept this. But, as Shakespeare noted, the near in blood, the nearer bloody.

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**Pakistan's tribal areas**

# The war heats up

Oct 11th 2007 | ISLAMABAD
From The Economist print edition

### A bloody battle on Pakistan's fringe

Get article background

SIDING with America in its war with the Taliban and al-Qaeda has never helped General Pervez Musharraf make friends at home. Opposition to his pro-American stance stiffened this week after some of the most intensive fighting since the army entered the lawless tribal belt bordering Afghanistan at America's behest in 2001.

The army has received a drubbing from militants with links to the Taliban and al-Qaeda. On October 6th, as General Musharraf was being re-elected as Pakistan's president, militants hit a lorry full of paramilitary troops with a roadside bomb in North Waziristan. As an army convoy rumbled to the scene it was ambushed by 300 militants, who killed 22 soldiers and wounded 11.

The army has struck back with days of “punitive” action in the Mir Ali district, where General Musharraf has said that al-Qaeda has taken refuge. Thousands of people fled air strikes against villages. The bodies of dozens of soldiers, many with their throats slit, were recovered. According to official figures, 200 militants and 50 soldiers were killed. An unknown number of civilians also died. Concern is mounting within the army over killing fellow citizens.

The security forces have lost more than 250 men since July, many in suicide-bombings. More than 200 soldiers taken captive in South Waziristan in August have still not been freed. General Musharraf denies that army morale is low. “They are part of a professional army and know well what they are doing,” he said on October 3rd. He warned militants not to harm the captive soldiers. Three were executed the next day.

Western diplomats claim the general's efforts to take on militants have been set back by six months of political turmoil. During the summer America criticised ineffective peace deals that the government had struck with militants. General Musharraf responded by deploying two extra divisions to trouble-spots in the North-West Frontier Province. The deployment in July, which coincided with a commando assault on the Red Mosque, a hotbed of militancy in Islamabad, has dragged the army into a ferocious tangle. Counter-terrorism has become counter-insurgency. The Pakistan army is not much good at either. If General Musharraf does fulfil his promise to slip into civvies, his designated successor as army chief, General Ashfaq Kiyani, has an unenviable task.

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Sudan

# The worsening chaos of Darfur

Oct 11th 2007 | NAIROBI
From The Economist print edition

AFP

**Internecine fighting makes peace look even less likely than before**

Get article background

JUST after the evening meal to break the Ramadan fast on September 29th, around 30 vehicles loaded with several hundred Sudanese rebels ripped through the perimeter of an African Union (AU) peacekeepers' base on the edge of Haskanita, a small town in southern Darfur, the embattled province in western Sudan where some 300,000 people have been killed since a rebellion began in 2003. The AU unit of about 100 troops fought off the first attack before falling back to trenches in the corner of their compound, firing through the night until their ammunition ran out. Ten were killed; at least 40 fled into the bush. The attackers looted the compound before Sudanese troops arrived to rescue the surviving peacekeepers.

A week later Haskanita itself was razed to the ground and looted. When the UN arrived to inspect the damage, only the school and the mosque were still standing. About 7,000 people are thought to have fled. Then on October 8th fighting erupted in the town of Muhajiriya, controlled by one of the Darfuri rebel factions. Scores of people were killed in heavy cross-fire.

As usual in the shadowy world of the Darfur war, what is certain is that plenty of people have been killed and many more displaced in these incidents, but no one can be sure who the attackers were or what their motive was. The AU peacekeepers' Nigerian commander in Darfur blamed a splinter group of the Sudan Liberation Army (SLA), one of three main rebel groups fighting against Sudan's government in Khartoum, for killing the AU men. Others suspect another splinter of one of those rebel groups, the Justice and Equality Movement (JEM).

Even the government of Omar al-Bashir in Khartoum came under suspicion. It was almost certainly responsible for razing Haskanita. The town was under government control at the time. How, it has been asked, could a large rebel convoy rumble through Haskanita unnoticed and unimpeded by the government? The army probably attacked Muhajiriya as well, though no one is certain of that either. The AU retracted its initial statement that the Sudanese army had bombed the town.

Why would Sudan's government want to collude in killing AU peacekeepers? Because, so the argument goes, Mr Bashir may want to stymie peace talks due to take place in Libya at the end of this month and discourage foreign peacekeepers from venturing into the Sudanese maelstrom. He has reluctantly agreed to accept a “hybrid” peacekeeping force of AU and UN troops, totalling some 26,000. At present, the AU's 6,000 or so troops plainly cannot cope. Letting a bunch of them be killed may deter others from coming along.

In any event, the government is still sponsoring groups of *janjaweed* (Arab militiamen on horseback) who continue to rape and pillage in Darfur and southern Sudan, where a separate shaky peace between the Arab north and the black African south is holding up, just. Amnesty International, a human-rights lobby, says it has evidence that the Sudanese government is preparing a military offensive in north Darfur, with troops readying themselves in at least six towns.

But the Darfuri rebels, now split into as many as a dozen factions, may themselves be increasing the chaos. If a rebel group did kill the AU peacekeepers, it would not be the first time. Since the AU troops arrived in 2004, they have increasingly come to be regarded by the rebels as instruments of the Sudanese government rather than as even-handed. Sudan is a prominent member of the AU, and is seen as having a big say over its deployment of troops.

So what started as a fight between Darfuris and Arabs may be turning into a free-for-all, not least for profiteers. Quite a lot of the violence, such as the frequent attacks on aid convoys and UN food dumps, is now sheer banditry. The forthcoming peace talks in Libya may be making things worse as the rebel factions and the Sudanese government jostle for any advantage on the ground that they can take to the conference table.

The result is that, as the fighting intensifies, the chances of any peace deal diminish. The SLA, the only Darfur rebel group to sign up to the last peace agreement, in 2006, says it was attacked by the Sudanese army in Muhajiriya; so its leaders may not be in a mood to sign up to any more deals with the Sudanese government. But at least they may actually go to Libya. Another important faction of the SLA refuses to, dashing any hope of a comprehensive accord favoured by Western diplomats.

Meanwhile, the UN is trying to assemble what would be its largest peacekeeping force for a decade, with a deadline to start deployment in Darfur by the end of the year. The UN has already received pledges for most of the troops, but the Sudanese government is still arguing over the force's command structure and the make-up of the vital “mission-enabling elements” (ie, helicopters and engineers) that would allow the troops to operate in the vast and rugged wastelands of Darfur, an area almost as big as France.

This hardware will have to come from sophisticated, mainly Western, armies. But Sudan's government says that this would detract from the essentially African nature of the force and has refused, for instance, to accept any American helicopter pilots as part of a peacekeeping force.

This stalling will, at the least, delay the deployment; at worse, it may undermine the force's capacity to operate effectively at all, as happened to the AU force. For frustrated Darfur-watchers, it is an all too familiar situation.

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Nigeria

# A dressing down

Oct 11th 2007 | ABUJA
From The Economist print edition

**The perils of wearing supposedly indecent clothes**

IT DOESN'T always pay to dress up for a party in Nigeria: it may earn you a hefty fine or even a stint in jail. In the northern city of Bauchi, capital of one of the 12 Nigerian states where people must obey *sharia* law, 18 young men have been on trial for cross-dressing while celebrating an alleged gay marriage. Charged first with sodomy, which carries a death sentence, they were taken to court in August and accused of the lesser crime of idleness and being vagabonds, punishable by a year in jail plus a few lashings.

But angry crowds, slighted by the downgrading of the charges, attacked the defence team as it left court, and bashed cars and people. Three weeks later, all 18 were rearrested and charged with conspiracy, unlawful gathering, indecent acts, and—again—idleness. Now they face up to ten years in prison if found guilty. A *pro bono* defence lawyer blames the public outcry for the extra charges they will face when the trial resumes next month.

A dress code may be expected in *sharia* states, but it was in Nigeria's night-life (and commercial) capital, Lagos, that scores of women were recently picked off the streets for “indecent dress”. Those who refused to pay fines were put on trial. Some of the women said they were sexually harassed in custody. Only after a public outcry were the detentions stopped and the cases thrown out by local government order.

This is not the first time that dress codes have caused a stir in Nigeria. Though there are no federal laws on the subject, many workplaces and universities enforce a stern code. In May, Kano state began requiring all private-school students to obey a Muslim dress code, including the *hijab* for women, that already applies in public schools. The local government says the rules apply only to Muslims. But to fit in at school and in other public places, many non-Muslims feel they must conform.

Keeping up moral standards is not always why people are being arrested. Crime rates and especially armed robberies are rising, so state and federal governments want to look tough. The head of the Lagos police, Mohammed Abubakar, has recently courted the press by arresting a string of alleged criminals. The police feel it is easier to pick up soft targets, such as the alleged cross-dressers, and leave the real villains alone. Besides, police pay is low and squeezing the public provides easy pickings. Arbitrary detention is common in both town and country.

Nigeria's new president, Umaru Yar'Adua, has apparently told the intelligence agency to help bring crime rates down by December. In the past, robberies and petty crime have risen in the run-up to the Christmas holidays. If Nigeria is to buck the trend, law enforcement itself, not just people on the street, will need cleaning up. The best broom so far has been the media, which have highlighted the arrests such as those in Lagos and Bauchi.

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Niger

# Oasis of defiance

Oct 11th 2007 | IN-GALL
From The Economist print edition

**The nomads defy a government ban**

MAKE-UP accentuates their long thin faces and fine features—pale foundation, charcoal lipstick and eyeliner—as the young men grimace to display the bright whites of their teeth and eyes to attract the girls. With necklaces and dangling earrings, feathered headgear and bells on their ankles, the men line up, swaying rhythmically, rising and falling on their toes, as their song, accompanied only by handclaps, rises to a crescendo.

The *gerewol*, or male beauty pageant, is also a test of stamina. The display goes on for hours in the afternoon heat. At times more than a hundred young men line up at once. But the number watching is far greater. On one side sit the women, swaddled in their best robes. They point and giggle, the young ones picking out the most handsome boys. On the other side are the men, most carrying swords, some on their camels to get a better view.

For the male contestants the prize is to be chosen by a girl and then to pair off, perhaps for marriage, or just for the night. But the bigger prize is social cohesion and the continuation of a way of life: collective ties stretched by months of wandering are re-established. For the Tuareg and Wodaabe nomads of the Sahara desert it is a fleeting chance to enjoy the pleasures of communal living before leaving with their herds.

The week-long gathering, known as the *cure salée* (French for salt cure), occurs every year near the oasis town of In-Gall in Niger. But this year it meant even more than usual, as Niger's government had, for the first time, tried to cancel it. Worried by a rebellion in the north, it cited security concerns. Tuareg have attacked soldiers and convoys, demanding more of the wealth from the uranium-rich northern desert.

But even in calm times nomads are scornful of nation-states. Thousands came anyway, ignoring orders from the capital, Niamey, some 1,000km (620 miles) away. The only concession to the government's ban was an unusual vagueness about where exactly this year's event would take place: your correspondent bumped through the bush for hours asking directions of passing nomads before arriving just before sunset. Suddenly the empty expanse of browning grass and thorny bushes gave way to a bustling temporary town of gaudy cloth tents, grass mats and cattle.

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The Gaza Strip

# A riddle of rockets

Oct 11th 2007 | JERUSALEM
From The Economist print edition

**Are the Palestinians' weapons getting more lethal?**

Get article background

THE militants of the Gaza Strip are evidently proud of their home-made rockets. Hundreds of them are piled up on racks in the back yard of the police station in Sderot, an Israeli town a few kilometres from the strip—twisted and burned, but many still bearing the unmistakable colours of the groups that built and fired them. That the rockets are popularly known as Qassams after their inventors, the Qassam Brigades loyal to the Islamist Hamas movement, is clearly a matter of some chagrin to the al-Quds Brigades of Palestinian Islamic Jihad, one of the most fanatical of the Palestinian groups. Someone has gone to the trouble of ordering tough yellow-and-black stickers with Quds in large Arabic letters and, in case the message was unclear to the intended targets, even larger Hebrew ones.

But the (uncoloured) rocket that fell on October 7th in the desert near the town of Netivot, 11km (seven miles) from the Gaza border, was of a different type, says the Israeli army: a Grad-type Katyusha, a variant on the ones that Hizbullah, the Shia group, rained on Israel from south Lebanon during last year's war. Only a handful has been fired from Gaza in the past. Bigger, longer-range and more accurate than the Qassams, they need higher-quality explosive and fuel. Israeli and foreign military sources say it is unlikely they can be made in Gaza's back-room workshops.

Weapons and ammunition have long been smuggled into Gaza via tunnels under the strip's border with Egypt. The tunnels are dug and controlled by criminal gangs, which bribe Egyptian police and soldiers to turn a blind eye, and then sell what they bring in—be it arms, drugs, cigarettes or other contraband—to the militias and on the black market in Gaza. Thanks to Israel's severe restrictions on trade with Gaza since Hamas wrested control of the strip in June from the forces of the secular Fatah, the black market is growing, creating a bounty for the smugglers and encouraging them to dig even more tunnels.

The tunnels have also been the conduit, Western and Israeli intelligence officials believe, for weapons and money from Iran, and possibly even for Hamas men headed there for training. Both Fatah and the Israelis have also accused Hamas of opening the door to al-Qaeda, a charge Hamas hotly denies. It is unclear whether the odd Gazan group claiming a link to al-Qaeda actually has one. The evidence, in any event, is murky. If there is a nascent al-Qaeda presence, it is still very small. But the prospect frightens most Palestinians, including almost certainly Hamas, as much as the Israelis.

Hamas also seems to have renegotiated the relationships that Fatah had forged with Gaza's criminals and tribal clans. Israel's military intelligence says it has logged an increase in weapons-smuggling in recent weeks, with Fatah sources claiming that this included a delivery of several dozen Katyushas. Hamas has let the clans, some of which have hundreds or even thousands of armed members, keep at least some of their weapons in return for a promise not to use them against other Palestinians. This was the deal that persuaded Gaza City's powerful Dughmush clan to release Alan Johnston, a kidnapped British journalist, in July.

Hamas's control over the other anti-Israeli militias, however, is less clear. The Grad fired this week was claimed by the Popular Resistance Committees, a small group that often joins forces with other militias or clans. It is thought sometimes to have freelanced for Hamas too. But while Hamas has never condemned any militia for launching rockets, a month ago it called on them to stop firing at the Gaza-Israel border crossings, something that gives Israel a good excuse to keep them closed. So far, its orders have been ignored.

The Qassams rarely kill anyone, but every Israeli within their 10-12km range lives in constant worry; B'Tselem, an Israeli human-rights lobby, says that the rockets have killed about a dozen Israeli civilians, several of them Arabs, in the past two years. The longer-range Katyushas expand that bubble of fear, which increases pressure on Israeli politicians to do something.

But there is not much they can do short of a massive and costly military incursion. They tried one last year, after an Israeli soldier was nabbed in a Palestinian raid across the Gaza border. Over 400 Gazans died, a third of them non-combatants, as well as three Israeli soldiers. In the past month, say UN monitors, Israeli forces have killed some 30 Palestinians in Gaza in an effort to deter the attacks. But the rockets keep coming.

## What's the point?

Why launch a Grad and raise the tension with Israel now? One possible motive for either Hamas or the other militants may be to provoke just such a harsh Israeli response, so as to derail the coming Israeli-Palestinian peace summit expected next month or in December. Israel is not rising to the bait. Its defence minister, Ehud Barak, who has been threatening a big incursion into Gaza, confined himself to promising that a new anti-missile system that should stop most Katyushas will be ready within a few years.

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Saudi Arabia

# Law of God versus law of man

Oct 11th 2007 | CAIRO
From The Economist print edition

**A tantalising reform of the Saudi judicial system is under way**

Get article background

AFP

**It's all in the book. Or maybe not**

A SAUDI surgeon has just pioneered a new, minimally invasive technique for replacing defective heart valves in children as young as three years old. Yet she is not allowed to drive a car. The kingdom produces long-haired devotees of heavy-metal music, junk food and Harley-Davidson motorbikes. It also contributes the lion's share of suicide-bombers in Iraq. It boasts a truly independent judiciary, and its sharpest lawyers carry degrees from the world's top schools. But they practise in a system with few codified laws, run by a coterie of ultra-puritanical judges who believe their rulings, based on their own interpretation of religious texts, represent the will of God.

Of all the institutions that perpetuate such contradictions and stop the kingdom from evolving much like other prosperous societies, perhaps the most obstructive is the judiciary. Saudis tend to find excuses for other things that strike outsiders as odd. The absoluteness of the Saudi monarchy, they tend to say, is a product of history and tradition. Extreme segregation of the sexes results from adherence to a 200-year old revivalist version of Islam, Wahhabism, that is part of the Saudi national identity. Besides, as the owners of Mecca, Saudis have a duty to uphold orthodoxy.

Yet even the most reform-resistant Saudis have long bemoaned the capriciousness of their courts. In theory, the Koran is held to be the Saudi constitution, and Islamic *sharia* its law. In practice, a patchwork of royal decrees frames the way the monarchy functions. A few ministerial committees regulate important commercial disputes, but it is a body of some 700 clerics, chosen by each other from a pool of Wahhabi scholars, that defines *sharia* as they see it, and chooses how to apply it. Its rulings are often harsh, including beheading for the crime of witchcraft, but sometimes also lenient, as in cases of rape or wife-beating. Sometimes it is slow, leaving thousands of abandoned women unable to secure a divorce.

This is why a recently announced overhaul of the legal system has been greeted with general relief. When the new rules go into effect, the country will have three tiers of courts, instead of the current two. Instead of applying their understanding of *sharia* to any case brought before them, judges will now preside over courts specialising in criminal, commercial, labour or family issues. The judiciary council that used to act as the highest court and was controlled by the most reactionary clerics in the kingdom, has been relegated to administration. A new ten-man Supreme Court will be filled mostly with royal appointees, presumably of a more diverse pedigree. The changes will be sweetened with an extra $2 billion in state funding for the judiciary.

Yet they may be slow to take effect, if past experience is any guide. Several years ago, a new code of criminal procedure was proclaimed, stipulating such things as the need to keep court records and for lawyers to represent defendants. Some judges still ignore such rules, for example, by ordering uppity lawyers out of their courts. Some, as a matter of principle, refuse to recognise another recent initiative, granting women their own national identity cards. These judges still insist on women being identified by a male “guardian”. In any case, a woman's testimony still carries only half the weight of a man's.

Besides, the reforms do not touch on how judges are chosen. While most Saudis are proud of their faith and believe in the justice of Islamic law, many would like their legal system to accept currents other than Wahhabism in interpreting it. Some 10% of the 24m Saudis are Shias and many of the rest adhere to less rigid Sunni schools. Liberal Saudis even suggest that judges should be trained not only in sacred texts but also in other aspects of life.

The changes do not meet another demand often voiced by lawyers, which is for laws to be codified. This is no easy task, since *sharia* consists of only a limited number of specific injunctions, with the bulk of accepted texts being instead traditions of exemplary behaviour by the Prophet Muhammad and his companions. Yet, as law experts argue, there is a basic need, in a complex modern society, for predictability in how the law should be interpreted. In answer to such arguments, Saleh Lahidan, the grizzled, long-standing head of the just-demoted supreme judicial council, says there is no need to copy other countries; codification would “separate us from our culture”.

But Mr Lahidan, derided by a commentator on a popular Saudi website as “a dinosaur who ought to go extinct”, may be fighting a losing battle. Reform in the kingdom is slow but public opinion is shifting. Among recent examples, one of the most fiery of preachers who advocated *jihad* in Iraq, Salman Awda, recently penned a Ramadan message to the al-Qaeda leader, Osama bin Laden, decrying the waste of life and damage to Islam caused by terrorism. And Saudi women activists, quiescent since a crackdown 15 years ago stripped several of government jobs, have now launched a national campaign to win the right to drive.

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Iraq

# Blackwater in hot water

Oct 11th 2007
From The Economist print edition

**The hired guns are under fire from both American and Iraqi politicians**

AFP

**Soon to get the chop?**

BAGHDAD is plainly one of the most dangerous places in the world, not least for Americans. So the record of Blackwater USA, an American private military company, in ensuring the safety of all those it protects is striking. The trouble is, its aggressive tactics have too often led to the death of innocent Iraqis.

On September 16th, according to the Iraqi government, a Blackwater convoy opened fire indiscriminately at a busy Baghdad crossroads, killing 17 bystanders. The government rejects Blackwater's claim that its men had come under fire. Although Blackwater was allowed to resume operations, Iraqi officials say they want the company to leave within six months. Some are demanding an $8m payment for each victim's family.

In a separate incident on October 10th, a Dubai-based firm called United Resources Group was accused of firing randomly and killing two women in Baghdad. The company said its men shot at an approaching car that had ignored repeated warnings to stop.

Iraq has an estimated 20,000-30,000 private security contractors, usually guarding VIPs and convoys. They are formally immune from Iraqi law yet are rarely disciplined by the Western governments that employ them. Often disliked by Iraqis more than foreign troops, they provide a popular cause for the fragile Iraqi government to assert itself. Democrats in charge of the American Congress have also taken aim at them. The House of Representatives passed a bill making all government contractors accountable under American law, and telling the FBI to prosecute offenders.

According to a report by the House Committee on Oversight and Government Reform, Blackwater was involved in 195 shootings in just over 32 months. On four out of five occasions the guards fired first and asked questions later, if ever. The incidents have usually been hushed up, with the payment of compensation if necessary.

Blackwater has secured more than $1 billion in American government contracts, mainly to protect American diplomats. Its founder, Erik Prince, a former Navy SEAL, told the committee that “no individual protected by Blackwater has ever been killed or seriously injured”, while 30 of its staff had died.

By the same token none of its staff has been prosecuted, though 122 have been sacked, including a drunk employee who killed a bodyguard of an Iraqi vice-president and was spirited out of Iraq. A Department of Justice investigation has yet to decide whether he will be charged.

Blackwater paid $15,000 in compensation. According to emails made public, the American chargé d'affaires had initially suggested paying $250,000, but his own security officials said such “crazy sums” would set a bad precedent, and “cause incidents with people trying to get killed by our guys to financially guarantee their family's future”. Blackwater, they said, “do an exceptional job”.

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French foreign policy

# Kouchner's kingdom

Oct 11th 2007 | PARIS
From The Economist print edition

AFP

**He talks a good talk. It is harder to say what the policies of France's new foreign minister will add up to**

Get article background

IT IS hard to see Bernard Kouchner as a diplomat. This free-wheeling, plain-talking humanitarian campaigner, who is now France's foreign minister, has little time for diplomatic niceties, stiff formality or professional caution. Yet his frank, sleeves-rolled-up approach is helping to define a new French diplomacy—and not just in style, but in substance too.

Less than six months into the job, Mr Kouchner has been a blast of fresh air. The popular co-founder of Médecins Sans Frontières, a charity, who once waded ashore in Somalia carrying a sack of rice (see picture), looks out of place besuited in his grand office at the Quai d'Orsay. In fact, he is seldom there. Part of the new style is to be constantly on the go. Mr Kouchner's visit to Iraq in August was the first by a French foreign minister since 1988. He spent three days there, staying outside the American-secured Green Zone.

The new style is also one of straight talking. Mr Kouchner caused shockwaves last month by invoking, to the consternation of his own diplomats, the prospect of “war” in Iran—even if, as he later stressed, he was only trying to spell out a worst-case scenario. Like his boss, President Nicolas Sarkozy, he seeks to deploy a mix of charm and coercion in order to strike deals. He worked hard to help push through recent United Nations resolutions on peacekeeping forces in Sudan and Chad. “Bernard is not a homework-oriented person,” comments a foreign-policy wonk who watched him as UN administrator in Kosovo. “But put him in a high-stress environment, and he's phenomenal.”

The new approach is also pragmatic. Mr Kouchner's starting-point is not *la gloire*, but a flexible effort to listen and see what works. Can he persuade reluctant fellow Europeans to accept tougher sanctions on Iran? He is not sure, he says, but he will give it a go. Will his efforts to get adversaries talking—in Kosovo or Lebanon, say—come to anything? He cannot say, but he knows the protagonists, and will try.

In many ways, Mr Kouchner's style matches that of his boss. This Socialist and Gaullist have forged improbably close ties. Both are energetic and impatient, with little time for political correctness. Both have the assertiveness and vanity to get things done. They like each other; they even jog together. “Sarkozy likes the image of France that Kouchner projects abroad,” comments an Elysée adviser. Mr Kouchner is not always in the loop: the mission to rescue Bulgarian nurses in Libya was orchestrated by

the Elysée. But he insists that he is free to get on with his job. He told Mr Sarkozy about his trip to Baghdad only a few days before he went.

Are these not just cosmetic changes? Mr Kouchner is categorical: “It is more than a change of style,” he says, in an interview with *The Economist*. For 40 years, French diplomacy has been marked by pro-Arabism, an anti-American reflex and a Gaullist desire to act as a balance between Moscow and Washington. Jacques Chirac embodied this tradition, taking his cues from the Arab street, and arguing for a European counterweight to America.

Today Mr Kouchner says that France needs rather to build new ties with emerging powers: in Asia, Latin America and beyond francophone Africa. And, as Mr Sarkozy made clear from the outset of his presidency, this involves working with the Americans, not against them. “The president and I both believe that our diplomacy is no longer founded on anti-Americanism,” says Mr Kouchner. “But that does not mean we are aligned with America.” He ticks off several possible areas of disagreement, such as climate change. But the French have dropped the habit of opposition for its own sake.

The other shift is to a values-based diplomacy. First marked by his experience as a volunteer doctor in the Biafran war, Mr Kouchner went on to develop the theory of a humanitarian “right to intervene” in other states' affairs. French foreign policy, he argues now, is not only about defending France's interests and guaranteeing its security, but also about “the image we have of ourselves”, and the promotion of human rights. This is not a foreign minister who is happy at banquets. Like other idealistic foreign ministers before him (eg, Robin Cook in Britain), he sees himself as a healer to the world: no conflicts, no oppressed people, leave him indifferent.

What can the French bring to the table? One answer is their ties to people whom America shuns. When Mr Kouchner invited Lebanese leaders to talks in France, for instance, he included Hizbullah—unthinkable to the Americans. Less happily, France has invited Venezuela's president, Hugo Chávez, to Paris, in support of his efforts to mediate over the liberation of hostages (who include three Americans and a Franco-Colombian, Ingrid Betancourt) held in Colombia—although an intervention by Mr Sarkozy to try to secure Ms Betancourt's release was no more successful than previous efforts.

Another answer is the credibility that France enjoys in the Arab world, thanks to its opposition to the invasion of Iraq—although Mr Kouchner himself was in favour of Saddam's overthrow. He now suggests that he could act as a mediator in Iraq. France also sounds tougher on Russia and China, as well as on Iran. Mr Kouchner insists that he used the word “war” in relation to Iran not to prepare for war but to avoid it, and to that end he stresses the need to work on a political solution as well as sanctions. Even so, his comments may have served France by hardening its image. Mr Sarkozy himself had previously referred to the military option when he said that all efforts had to be made to avoid “a catastrophic alternative: the Iranian bomb or the bombing of Iran.”

Mr Kouchner's brand of French diplomacy may have its limits, however, as he is now discovering. One is the inevitable clash between commercial interests and humanitarian ideals. Mr Kouchner says that he has asked Total and Gaz de France to hold back from any new investment in Iran. But he knows that, without the support of Italy and Germany, let alone Russia, the only loser from a push for disinvestment would be France.

Another is the unpredictability of his straight-talking approach. Mr Kouchner had to apologise after unwisely revealing in an interview his opinion that the Iraqi prime minister, Nuri al-Maliki, should go. He now says that, although it is still too early to visit Tehran, he is ready to go “within months, if not weeks”. But if he did, he might undermine European Union solidarity, since the EU has agreed to use its foreign-policy supremo, Javier Solana, as sole negotiator with the Iranians.

Yet another limit may be possible conflict with the Elysée. So far, Mr Kouchner and Mr Sarkozy have kept remarkably in step. Mr Kouchner has put aside differences, notably over Turkey's membership of the EU—though as a personal advocate of Turkish entry, he hints that, though he applies official French policy, he has not given up “advancing a few arguments” to his boss. Yet their co-operation has not been tested. For all the tough talk on Russia, Mr Sarkozy announced in Moscow this week that French companies were eager to invest more. It remains to be seen whether the president will always prefer Mr Kouchner's idealism to France's traditional regard for its national interest.

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**Passport-free travel in Europe**

# Burning bridges

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From The Economist print edition

**Planned expansion of the Schengen area provokes anxiety across Europe**

FEW actions seem more at odds with the European dream than demolishing bridges to the neighbours. Yet that is what Slovenia has been doing along its border with Croatia. It is part of the preparation for the eastward expansion of the Schengen area, to take in nine new members, due at the end of the year.

First signed by five countries in 1985 and incorporated into European Union law in 1997, Schengen aims to scrap internal border controls. This necessitates common visas, more police co-operation—and firm control of the common external border. Since this is the only line of defence against migration or smuggling, expansions of Schengen tend to set off scare stories about the porousness of new borders.

Until three years ago, the Schengen area consisted of “the EU, minus two, plus two”. Of the 15 EU members, Britain and Ireland were out; but two non-EU countries, Norway and Iceland, were in. When ten new members joined the EU in May 2004, all were committed to joining Schengen in full. But they had to prepare beforehand, which has required a lot of changes.

Policemen have had to be trained to take over border controls from the army. Checkpoints have been improved with night-vision gear and ground sensors. Would-be members have also had to link their databases to the Schengen Information System, which tracks criminals on the run and stolen cars. Problems in making the system accessible to new members provoked complaints that the old ones did not want them in. But nine countries (all bar Cyprus) are now plugged in, and should get the nod to join by Christmas.

The scare stories have begun on cue. The loudest have come from the Austrian interior minister, Günther Platter. He wants to make up for the dismantling of border controls with his eastern neighbours by setting up military checkpoints within Austria. Czech and Hungarian politicians are miffed by this lack of trust, though Mr Platter's real concern is Slovakia. Its short border with Ukraine cuts through thick forest and the Carpathian mountains, and is seen as one of the weak points in the new Schengen.

Monica den Boer, dean of the Police Academy of the Netherlands, thinks worries about new borders tend to be exaggerated: those aired when Italy and Greece joined Schengen, in 1997 and 2000 respectively, turned out to be unfounded. If anything, she says, security is likely to improve because police officers will be able to co-operate better across borders.

Yet even Ms Den Boer concedes that some concerns are justified. She is not thinking of the nine countries

joining this December, nor of Switzerland (another non-EU member) and Cyprus, which plan to join during 2008, but of Bulgaria and Romania, which hope to join in 2010-11. Low pay and widespread corruption may make their border patrols prone to bribery.

The biggest concerns are east of the new Schengen border. Unofficial crossings, such as the makeshift bridges between Croatia and Slovenia, are being closed. Checks at official crossings will be intensified, prolonging queues. Worse, visitors will need a Schengen visa, which can cost as much as €60 ($85). “For people from Ukraine, who can now travel to Poland free, the visa fee will be a major obstacle,” says Orysia Lutsevych, director of Open Ukraine, a foundation to promote east-west exchanges.

Some new Schengen members want to ease entry requirements for their eastern neighbours. The EU has frozen visa fees at €35 for travellers from the Western Balkans. Yet Ms Lutsevych notes that many people in Ukraine perceive the Schengen border as a new Iron Curtain. If the EU wants to keep its eastern neighbours happy, it may have to build more bridges, rather than burn them.

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**Share scandals in France**

# Inside story

Oct 11th 2007 | PARIS
From The Economist print edition

**The political fall-out from some alleged insider-dealing at EADS**

**Get article background**

“I WANT to know, at the end of the inquiry, what the state's responsibility was in the affair.” Thus President Nicolas Sarkozy this week, as investigators into possible insider-trading at EADS, the European Aeronautic Defence and Space company, turned to the state's own role. The increasingly murky affair now touches a web of top industrial and political figures.

At issue are two questions. When executives at EADS, the parent company of Airbus, exercised stock options in November 2005 and March 2006, did they know about delays in building the A380 superjumbo, which emerged in public only in June 2006 and prompted a 26% share-price plunge? And did the government know about these troubles when the Caisse des Dépots et Consignations (CDC), a state-owned bank, helped Lagardère, a big industrial group, to offload part of its 7.5% stake in EADS in April 2006? The first transaction reaped big capital gains for the bosses; the second landed the state with a big loss.

The French regulator last week handed interim documents about its inquiry, which touches no fewer than 21 EADS executives, to prosecutors. Attention has now turned to how much the government knew. In January 2006 the Agency for State Shareholdings advised Thierry Breton, the then finance minister, to reduce the French state's stake in EADS as the company would soon enter “a zone of turbulence”. It was then French policy to urge the CDC to invest in industry for reasons of “economic patriotism”. So did the government persuade the CDC to buy out part of Lagardère's shareholding?

Mr Breton says he knew nothing about the A380's delays, and denies influencing or even knowing about the CDC's plans. The state itself, adds Mr Breton, never sold a share, and the advice that it should was based on publicly available information. CDC bosses also insist that they acted alone, though they have added that they might review their investment procedures. But if the finance ministry did not know about the CDC's plans, what about the Elysée? Augustin de Romanet, who is now the CDC's director-general, was at that time a civil servant at the Elysée.

The affair comes at a politically difficult time. For all the promise of the A380 (see article), Airbus is shedding 10,000 jobs across Europe and closing several plants. And Mr Sarkozy has promised both to reward hard work and to “remoralise capitalism”. Unless investigators get to the bottom of this scandal, he may find it hard to assuage a public feeling that, in France, big bosses get away with everything.

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Switzerland's election

# A noisy herd

Oct 11th 2007 | GENEVA
From The Economist print edition

**The extremes make the headlines, but the Greens come up quietly**

AFP

**The Swiss roll on**

Get article background

A RIOT in Bern, letter bombs at centre-right politicians' homes: these are not what one expects in Switzerland. Extremists on left and right have dominated the news in the weeks leading up to the general election on October 21st. As ever, the focus is on the far-right Swiss People's Party (SVP) of Christoph Blocher, who is justice minister in the federal government. Yet neither his bluster nor that of his opponents is likely to lead to a big shift in voting.

Mr Blocher and his chums took control of the SVP in the 1990s. He used the referendum system to keep Switzerland well away from the European Union, and he persistently blamed immigration for the country's ills. His brand of populist nationalism struck a chord with many Swiss citizens. The party doubled its share of the national vote in 12 years to reach 26.7%, ahead of the three other main parties, at the 2003 election. With the biggest share of parliamentary seats, the SVP won a second ministerial post in Switzerland's seven-strong federal government, at the expense of the Christian Democrats. This was the first time that the “magic formula” power-sharing arrangement among the four parties had changed since 1959, and it put the SVP on the same footing as the Socialists and the centre-right Radicals.

Yet for all the headlines, the SVP's rise seems to have all but halted. Opinion polls give it roughly the same vote as four years ago. Mr Blocher's transition from anti-establishment government critic into justice minister has done little for his ratings. Polls suggest that he is one of the least popular ministers. He often alludes in public to disagreements with his six cabinet colleagues, a practice that is frowned on by most consensus-minded Swiss.

The SVP's tone continues to be shrill, and it draws accusations of xenophobia, especially from the left and in francophone western Switzerland. The party wants a referendum to ban the construction of minarets at Muslim places of worship. A poster depicting three white sheep kicking a black sheep off the Swiss flag has triggered protests, culminating in a riot in Bern on October 6th when hundreds of left-wing extremists clashed with police during an SVP election rally. The SVP insists feebly that the poster is aimed at expelling foreigners convicted of crimes, not at immigrants in general.

With the economy ticking over quite healthily, immigration and the environment have emerged as the biggest issues for Swiss voters. The first may help the SVP, but the second is boosting the Green Party, now the fastest-rising political force. It may even break through the 10% mark for the first time. Some political analysts conclude that the SVP has reached a plateau from which it will eventually fall back. “I

think the SVP will decline once Mr Blocher isn't there. They'll lose 5% in one go," says Hans Hirter of the University of Bern. But that may be some time off: Mr Blocher is just 67.

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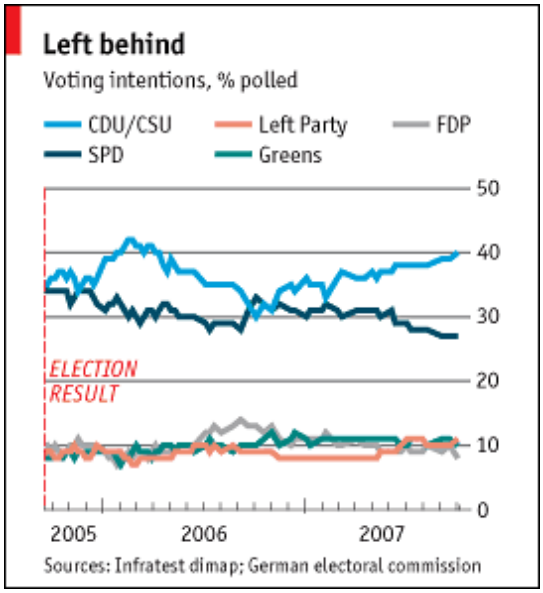
The German left

# Troubled times

Oct 11th 2007 | BERLIN AND DUISBURG
From The Economist print edition

**Why the rise of the Left Party has cast the Social Democrats into a gloom**

Get article background




ASK Ralf Pietras why the Left Party is growing in Duisburg and he offers a ready answer. The coal mines are exhausted, steel is forged by machine and old folk scavenge for bottles to reclaim the deposits. Duisburg, a gritty town at the junction of the Rhine and the Ruhr, has lost 35,000 good jobs in 15 years. In such adversity, the Left Party thrives. Its local membership has quintupled since it began in 2005, to 330. Mr Pietras, spokesman of the Duisburg branch, dreams of 1,000. The local Social Democratic Party (SPD), which ruled the city for 56 years until 2004, has lost half its membership in two decades.

Frighteningly for the SPD, this is a national trend. It has been governing in Berlin, from 1998 to 2005 under Chancellor Gerhard Schröder, since then as the junior partner in Angela Merkel's "grand coalition". But as the Left Party gnaws away at its working-class base, the SPD is starting to panic. The clearest sign is a call by the SPD's boss, Kurt Beck, to extend the period for paying unemployment benefit to older workers. Franz Müntefering, the SPD vice-chancellor under Ms Merkel, has denounced the idea as a "U-turn" from reforms enacted by the Schröder government. The press is speculating that his resignation may be imminent. Mr Beck threatens the foundations of the grand coalition, the Christian Democrats claim.

Why is a small party founded by east German former communists causing national ructions? One reason is that the economic upswing has left so many Germans behind. Unemployment is at its lowest level since the early 1990s, thanks partly to the reforms that Mr Beck now wants to roll back. But many of the new jobs offer lower pay and less security than those lost during the downturn, notes Markus Grabka of DIW, a research institute in Berlin. Relative poverty has jumped, with 17% of Germans earning less than 60% of the median in 2005, up from 12% in 1999. Income-tax cuts have helped the rich; the middle class has shrunk.

On these matters the Left Party is saying what most Germans seem to be thinking. According to one recent poll, 82% of Germans want to lower the retirement age from 67 (reversing another reform), two-thirds want a minimum wage and 72% think the grand coalition should do more to promote social justice. Half want German troops out of Afghanistan, but the Left Party is the only one that unqualifiedly agrees. Unlike the Greens and the Free Democrats, it has no reason to flirt with either party in the grand coalition (the SPD refuses to consider it as a potential partner at federal level). It likes to claim it is Germany's only real opposition party.

This has come about mostly by luck. The Left Party is the third incarnation of East Germany's Socialist Unity Party, which had 2.3m members when the regime collapsed in 1989. It struggled back to life as the Party of Democratic Socialism, trying to be a normal party by catering to *Ossis* who felt swamped by unification. The Left Party is still strongest in the east: it wins almost a quarter of votes in the six eastern states, has been in a coalition in Mecklenburg-West Pomerania and is now the SPD's partner in the city of Berlin.

It was a bust-up within the SPD that gave the Left Party its purchase in the west. Social Democrats dismayed by Mr Schröder's reforms broke away to form Alternative Labour and Social Justice (WASG), which fought alongside the PDS in the 2005 election. Between them they took almost 9% of the vote. They formally merged into the Left Party in June.

This hybrid works mainly because there is no risk of its assuming national responsibilities anytime soon. It has two leaders: Lothar Bisky, a film-studies professor from Brandenburg (though Gregor Gysi is the party's true eastern star), and Oskar Lafontaine, a firebrand from Saarland given to populist rhetoric, who was once SPD chairman. The SPD loathes Mr Lafontaine for abruptly quitting as Mr Schröder's finance minister in 1999. It has just published “Oskar's World”, a supposedly incriminating compendium of remarks by and about him.

The Left Party's policy documents drip with hostility to capitalism. It leans toward pacifism in foreign policy and against the hawkish European Central Bank. The long-term goal, says Dietmar Bartsch, its general secretary, is “another society” to be achieved by “evolution, not revolution”. Higher taxes and lower defence spending would bring greater equality.

The party's eastern wing has communist remnants (and a libertarian strain, exemplified by Saxony's Julia Bonk, who favours a “right to get high”). But its leaders have been sobered by proximity to power. In the city of Berlin, the Left Party has abetted austerity measures such as pay cuts for public workers that would be deemed heresy in parts of the SPD. Such decisions show that “we are not merely a fair-weather party,” says Harald Wolf, Berlin's economy minister.

Pragmatism is less evident in the former WASG, which is dominated by the politics of protest. Though less inclined to call themselves socialists, the westerners care less about fiscal responsibility. Lacking experience in power, they are unwilling to get it by compromise. André Brie, an eastern moderniser, recently warned westerners (and some easterners) against “black and white thinking” reminiscent of communist times. The Left Party's democratic credentials are often questioned, but Dan Hough says in a new book* that its leaders are all democrats. The main obstacles to co-operation with the SPD in the west are Mr Lafontaine and the stigma of the party's communist past.

The Left Party's short-term aims are thus modest. In most western states its vote is close to the 5% level needed to get into the legislature. It has already cracked Bremen's and could enter up to three more next year. Even in fertile Duisburg, the SPD's shrunken membership still dwarfs that of the Left Party and it dominates the local media, complains Mr Pietras. Hence the immediate ambition, says Mr Bartsch, “to shift the axis of politics to the left.”

The SPD's troubles suggest this may be happening. That does not guarantee the Left Party a bright future. It could be hurt by a more populist SPD, by greater prosperity (incomes have picked up during the revival of the past two years) or by its own internal contradictions. But it could also evolve into a permanent candidate for coalition with the SPD (and perhaps the Greens), including at federal level. The risk then would be of losing what makes it distinctive. But the SPD's panic may not truly subside until the Left Party becomes a potential partner, not a competitor.

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* “The Left Party in Contemporary German Politics”, by Dan Hough, Michael Koss and Jonathan Olsen. Palgrave Macmillan, $74.95 and £50

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Charlemagne

# Europe's despot dilemma

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From The Economist print edition

Illustration by Peter Schrank

**The European Union seems unable to decide how to deal with dictators**

IF EVER there was a moment for Europe to come up with new policies for dealing with despots, it is now. The muscular American approach to effecting regime change has few takers these days. The club-of-autocrats approach, exemplified by China's see-no-evil relations with Myanmar and Sudan, is ineffective and may be vulnerable to pressures from today's interconnected world (Olympic boycott, anyone?). In theory, the European Union is ready. It is eager to show off the fledgling common foreign policy of a regional power that is big, rich and noisily principled, but also an exponent of “soft power”.

Moreover, dealing with rogues is high on Europe's agenda. Next week foreign ministers will meet to debate policies towards Iran, Myanmar and Uzbekistan. Trickiest of all, they will consider how to stop Zimbabwe's pariah-president, Robert Mugabe, hijacking an EU-Africa summit in Portugal in December.

It would be nice to report that the EU is rising to the challenge, and crafting a middle way between realpolitik and the idealistic promotion of peace, democracy and prosperity. Alas, Europe seldom works like this. In Myanmar, it lacks leverage; over Iran, commercial interests are blocking France's recent call for tougher sanctions. Often European leaders lack the single-mindedness to confront a ruthless regime, such as gas-rich Uzbekistan, which has contemptuously shrugged off European efforts to discuss the 2005 massacre of opposition protesters in Andijan.

The Europeans are in a special pickle over Mr Mugabe. EU-Africa summits have been blocked for seven years by disagreements over whether to invite a man whose destruction of a once-prosperous country has left him with few, if any, defenders in Europe. But now China's expanding presence in Africa, offering billions in cash and loans in exchange for natural resources, has reduced the ban-Mugabe camp to one EU country: Zimbabwe's former colonial master. The British prime minister, Gordon Brown, has pledged to boycott the summit rather than share a table with Mr Mugabe. Faced with threats of a matching African boycott if Mr Mugabe is banned, Portugal, which holds the rotating EU presidency, has suggested that the final guest list be decided by African countries.

The summit itself has few clear goals, though the Portuguese talk of drawing up “a completely new basis for dialogue” with Africa, based on principles such as democracy, regional integration and “good governance”, which should at least make Mr Mugabe smile. In Brussels the near-universal call is to hold an Africa summit mainly because there has not been one for a long time. The British stance prompts impatience, even incomprehension.

Mr Brown's “posturing” is not helpful, comments one diplomat. Yes, Mr Mugabe is horrible, says another, but there are “any number of rogues” in Africa. Even an official sympathetic to Britain's “principled” stance points to the EU's dwindling leverage in Africa, thanks to that Chinese cash. African recipients of China's largesse can ignore such traditional vehicles for European influence as the International Monetary Fund and the World Bank, she notes. Yet “Europe has all sorts of interests in being more involved in Africa, like migration and security.”

Is the EU, then, to be nothing more than a cynical player of geopolitics, coldly pursuing European interests under cover of its talk of values? At least that would offer the meagre comfort of simplicity. In fact, the EU position is not so coherent. A strong whiff of realpolitik certainly hangs in the air when diplomats in Brussels explain why nothing can be done to punish some despot or other. The explanation follows a wearily familiar format. You know, it is suggested, our existing sanctions are meaningless, they are not “biting”. And yes, this despot is a monster, but is he much worse than others we talk to? Anyway, adding extra sanctions, or pulling out, would be an empty gesture: the Chinese/Indians/Russians are just waiting to take our place.

## Continent of guilt, and cynicism

That sounds cynical enough. But most European governments do not even have the courage of their lack of convictions. Five minutes after conceding that a dictator is wicked but must be engaged anyway, diplomats will point to “promising” signals on human rights that can be linked to any EU talks. For example, most observers assume that energy and strategic interests lie behind a German-led push to suspend EU sanctions on Uzbekistan, but pro-engagement diplomats feel the need to say that they detect signs of better behaviour. This can be surreal. In one discussion about Uzbek repression of journalists, a German claimed that this was mostly just “self-censorship”. (Perhaps he was thinking of Gulbahor Turaeva, a doctor sentenced to six years for crimes including “defamation” after providing independent reports from Andijan. A mother of four, she was released in June only after she “confessed” to acting criminally, and denounced dissident colleagues and foreign journalists.)

At times the EU's behaviour smacks of a loss of moral confidence. During a recent discussion of Chinese lending policies in Africa, one senior diplomat questioned Europe's right to criticise, given its colonial past. (One retort would surely be that even ex-colonial powers can learn from their mistakes.) During a private discussion of human-rights abuses in Asia, another asked rhetorically if they were so much worse than the treatment of Iraqi prisoners by some Western powers.

A bit of European humility and self-knowledge may be welcome. But not if it becomes an excuse for inaction. The EU likes to talk. Well, talking is not a bad start, so long as the right conditions are attached. That takes moral confidence, and the nerve not to ditch principles at the first sign of competition from less scrupulous rivals, such as China.

The Americans have a lot on their plate just now. A global vacancy exists for somebody with good plans for handling tyrants. The question is: could the EU plausibly apply for it?

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Public finances

# The perils of imprudence

Oct 11th 2007
From The Economist print edition

Reuters

**Tax stunts will not shore up Labour if the public finances get much worse**

Gordon Brown

SELDOM have the naked politics of a sober budgetary event been more evident than in Alistair Darling's first big day as chancellor of the exchequer this week. Gordon Brown had brought forward the government's long-awaited statement on the public finances and spending plans to provide the launch-pad for a snap election that never flew. Grounded by the prime minister at the eleventh hour, Mr Darling had to use the occasion to rally a self-harming government that now has to start hurting the opposition instead.

Politicians have a way of pinching their adversaries' clothes, but few have done so as brazenly as Mr Brown and Mr Darling on October 9th. Although the substance of the statement was meant to be the shape of future spending, along with an update on the economic and fiscal state of play, it was the unscheduled announcements about tax cuts that grabbed attention.

If there was one single reason why Mr Brown hastily backed out of calling an election, it was the poll-swinging popularity of the Tories' proposal, unveiled only a week before, to slash inheritance tax. Suddenly it emerged that Labour, too, was razor-keen to reform the cordially loathed death duty. George Osborne, the Conservative shadow chancellor, had urged raising the tax-free limit from £300,000 ($612,000) to £1m. Mr Darling's riposte was to double it, for married couples and civil partners, to £600,000 by making their individual allowances transferable. He backdated this for widows and widowers.

The chancellor had other garments to steal too. Labour had heaped scorn on Mr Osborne's plan to finance the lost inheritance-tax revenue by taxing the foreign income of people living in Britain but claiming “non-domiciled” status. Yet just one week later, Mr Darling unveiled a proposal that looked suspiciously like it. Whereas Mr Osborne had proposed an annual charge of £25,000 on all “non-doms”, Mr Darling said he would charge those who had spent seven years in Britain £30,000.

Not content with that, the chancellor also stole some clothes from the Liberal Democrats (to which the Tories too had helped themselves) in taxing air travel. Flights rather than air passengers will be taxed from November 2009—a better approach, since it will reflect more precisely the environmental costs of carbon emissions from air travel.

Judging by the glee on his face as he listened to his chancellor, Gordon Brown thought that he had stolen

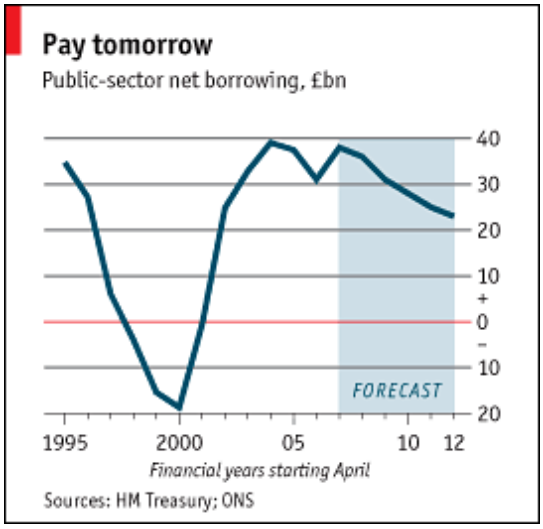
a march on the Tories. But Labour's hasty response smacks of political panic rather than of the lofty vision the prime minister promised after flunking his date at the polls. As chancellor for ten years, Mr Brown had every chance to sort out the “non-dom” anomaly, which he had begun to review as early as 2002. Little more than a year ago, he and his allies dismissed a call by Stephen Byers, a former minister and fan of Tony Blair, to scrap inheritance tax altogether.

Another of the government's tax reforms embarrassingly tore up one of Mr Brown's own pet measures, which turned out to be far too lenient towards private-equity bosses. The chancellor is getting rid of a complex set of reliefs on capital-gains tax introduced in 1998 that in effect cuts the top rate from 40% to 10% for gains made on business assets held for at least two years. Instead there will be a simple flat rate of 18% that will apply across the board. Although many will gain from the reform, there have been howls of anguish from the losers, including entrepreneurs who have built up their own businesses.

Mr Darling claims that the Labour government's tax proposals are more realistic than those of the Conservatives. In particular, his inheritance-tax cut will cost £1.4 billion a year, compared with the £3.1 billion expense of the Tories' plan. His tax on “non-doms” will raise £650m a year, whereas Mr Osborne says that the Tory proposal would bring in £3.5 billion.

Even so, when these and other tax changes are totted up, the result is familiar. Bit by bit, first Mr Brown and now Mr Darling have put up taxes since the election in 2005. The reform of capital-gains taxation will raise £900m by 2010-11; the change to aviation duty £500m. All in all, the Treasury will by then be getting £1.4 billion more in revenue. The total tally from tax-raising measures in Labour's third term is now worth £8 billion a year, calculates the Institute for Fiscal Studies, a think-tank.

The centrepiece of Mr Darling's statement was supposed to be the government's plan for public spending over the next three years. Yet so much of this had been dribbled out in advance that there were no great surprises. After the long splurge when Mr Brown forsook his early fealty to fiscal prudence, real growth in total spending will halve to 2.1% a year until 2010-11. Within that, health is the big winner, yet an annual increase of 3.7% across Britain will seem a wrenching slowdown after almost a decade of 7% growth.




The government's plans mean that over the next five years spending will increase more slowly than the economy—another way in which Labour is now paying tribute to Tory ideas. But Mr Brown's biggest headache may be that the public finances have taken a turn for the worse. In his last budget, he forecast that the government would have to borrow £33.7 billion in 2007-08 and £30 billion the following year. Mr Darling has raised these forecasts to £38 billion and £36 billion respectively (see chart). At the same time he predicted that the economy would grow by only 2.0-2.5% in 2008, less than the Treasury's March forecast of 2.5-3.0%. That looks optimistic, given the potential impact of the credit crunch. The City, a big contributor to revenues as well as GDP growth, is expected to take quite a knock.

Even with the planned slowdown in spending, the public finances are looking precarious. Mr Brown may come to rue the day that he did not put them on a firmer footing when he had the chance as chancellor. Of all the difficulties that now beset him, the economic and fiscal ones may prove the least surmountable.

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The British army

# The politics of retreat

Oct 11th 2007
From The Economist print edition

**The plan is to get out of Iraq before an election looms**

FEW things touch the hearts of British voters as much as the fate of their fighting men under fire. Small wonder, then, that Gordon Brown's abortive pre-election manoeuvrings included a visit to the troops in Iraq, and the promise that 1,000 of them would be home by Christmas. His figures were distorted (the departure of 500 troops had already been announced), and his timing seen as cynical. Undeterred, the prime minister gave Parliament a signal this week that all British forces could be out of Basra by Christmas next year—in time, perhaps, for him to fight an election free of the political burden of an unpopular war.

Britain is on a “glide path” out of Iraq, a senior official said on October 9th, with “no guarantee that [the troops] will be there beyond 2008”. (The British are likely, though, to keep providing aircraft and special forces to help the Americans, who will remain in large numbers.)

AFP

**Waiting to go home**

British forces at Basra's airport will be roughly halved by next spring, to around 2,500 soldiers (plus about 500 “elsewhere in the region”—ie, Kuwait), Mr Brown said on October 8th. A decision on how long the rest should stay will be taken then. The precise rate of departure will depend on “conditions on the ground”, he said. The fact that he has had to offer money and visas to resettle Iraqis working for the British lest they be killed as collaborators is one sign that “conditions” may be less than benign. The three rockets fired at the British military base at Basra airport within an hour of his statement are another. These reportedly sent servicemen running for cover and the most senior British officer in Basra diving under his desk.

The government argues that its soldiers can leave the south because Iraqi forces there are increasingly able to guarantee security and are scheduled to take formal control of Basra province by the end of the year. By spring, British troops could be doing little more than waving the flag. They are supposed to provide “overwatch”—armed backup for Iraqi forces. But with many of Britain's remaining soldiers administering the airport, running a headquarters for international forces and providing logistical support, the few combat units left will be busy just defending themselves.

Mr Brown has a tricky task: to distance himself from Tony Blair's wars while avoiding accusations that he is soft on defence. His strategy is to extricate himself from Iraq, keep up the fight in Afghanistan (a less unpopular engagement) and give the army just enough money to silence complaints about the pay of fighting soldiers and the awful housing they get at home.

The British presence in Afghanistan has already grown to about 7,700 soldiers. In the second season of hard fighting in Helmand province, the NATO commander, General Dan McNeill, has said the British might lose some of the ground they have won from the Taliban because Afghan forces cannot hold it. Illicit cultivation of poppies has also increased to record levels. The British army may have given up on Iraq as a lost cause, but Afghanistan is far from won.

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The BBC

# A royal mess

Oct 11th 2007
From The Economist print edition

**What the “Crowngate” affair says about the BBC**

Get article background

IT ALL started when RDF Media, a production company, sexed up a documentary it had made for the BBC called “A Year with the Queen” in order to sell it to foreign television firms at a market in Cannes. In a promotional tape, Stephen Lambert, chief creative officer of RDF, switched bits of footage of the queen to make it look as if she had stormed out of a photo-shoot when in fact she had not. The BBC found out about the deception too late and dithered about admitting it. On October 5th an independent investigation into “Crowngate” prompted the controller of BBC1 to resign and plunged the corporation into crisis. More blows are to fall on the Beeb.

Mark Thompson, its director-general, said this week that Mr Lambert (who has also resigned) “behaved disgracefully” in altering the footage. But the BBC was only too happy to use RDF's tape to hype the documentary and win a big audience. Perhaps because it was such a good story, no one stopped to question whether it was true, or even probable. Peter Fincham, BBC1's controller, took the tape to a press conference in July and showed journalists the bit where the queen “loses it a bit and walks out in a huff”. The next day the *Sun*, Britain's best-selling newspaper, ran a piece headlined “I'm orf”.

AP

**We were not as unamused as all that**

That the BBC is so desperate to attract viewers points to a bigger problem. Because it is funded by a tax on all television sets, the BBC believes it has to achieve high ratings to justify itself. At the same time it is required to produce distinctive, “public- service” programmes of higher quality than those the commercial sector makes. These goals are often incompatible.

It has been, in fact, a terrible year for British television in general. In addition to Crowngate, the BBC has had to admit that several programmes faked the winners of phone-in competitions in various ways. This too was driven by the need to raise ratings. All three commercial broadcasters—ITV, Channels 4 and 5—have been caught cheating people who telephoned their programmes on premium-rate lines.

The BBC's troubles are unlikely to end soon. Its head of television, Jana Bennett, was criticised by the independent investigator for her handling of the row with the queen and may still have to quit. Mr Thompson is deeply unpopular with staff for the way in which he responded to Crowngate and to the phone-in scandals: employees think he has heaped blame on junior people but protected senior executives. He is also disliked for failing to win as much money as the corporation wanted from the renewal of its licence this year. Because of the shortfall, Mr Thompson will announce plans shortly to cut over a tenth of the BBC's workforce.

The cuts are expected to fall most heavily on factual programming. Several prominent journalists have voiced fears about the future of respected current-affairs programmes such as “Newsnight” and “Panorama”. John Humphrys, a presenter of BBC Radio's most-heeded current-affairs show, the “Today” programme, wants the BBC to shut down instead digital services such as BBC3, a newish television channel designed to appeal to the young. But the BBC would rather weaken what it has than lose a bit of its empire.

Cutting spending on factual content may be dangerous for the BBC, however, as news and documentaries are the programmes that most clearly fulfil its responsibilities as a public-service broadcaster. Crowngate and the phone-in scandals have done more damage to the BBC's reputation with the public than decades

of debate over the rights and wrongs of making everyone pay for it. It now needs to get back to chasing quality, not ratings.

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Nuclear power

# Contaminated ground

Oct 11th 2007
From The Economist print edition

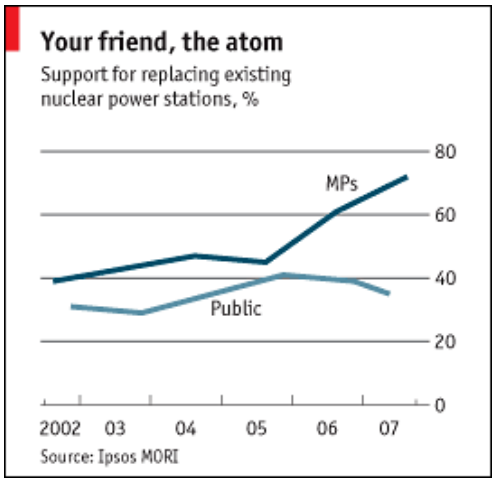
**The shadow of an old accident haunts Britain's nuclear revival**

Get article background

THIS is a big week in the government's attempt to rehabilitate nuclear energy. Eight months after a court ruled that its first public consultation on whether to build more reactors had been misleading and unfair, its second attempt finished on October 10th. For a government with (until recently) a reputation for slick public relations, that date looks ill-judged. For it also marks the 50th anniversary of a fire at the Windscale nuclear reactor in Cumbria that was, until Three Mile Island in 1979, the world's worst atomic accident (the Chernobyl explosion in 1986 dwarfs both).

The fire broke out during a maintenance operation and burned for over 40 hours before engineers realised what was happening. At its height, 11 tonnes of uranium fuel was burning at temperatures of up to 1,300 degrees Celsius. A plume of radioactive smoke drifted south towards London, and east over Norway and Belgium. The fire was put out by drenching the reactor's core with water, a risky operation that could have caused a hydrogen explosion. The prime minister, Harold Macmillan, ordered the disaster hushed up.

Experts insist that a repeat of the Windscale accident is extremely unlikely. The heat build-up that sparked the fire was caused by poor knowledge of reactor physics, which are much better understood today. The reactor itself—designed to produce plutonium for Britain's bombs—was full of flammable material and built with few of the safety features that modern power stations are laden with. Simon Taylor, an economist at Cambridge University's business school, argues that Windscale was good for Britain's nuclear industry, since it focused minds on safety.




Such reassurances cut little ice with the public. According to Ipsos MORI, a polling outfit, public support for nuclear energy has risen over the past six years (see chart). More Britons now support nuclear power than oppose it. But despite official arguments about nuclear power's low-carbon nature and potential contribution to more secure electricity supplies, the rise in its popularity has hardly been dramatic. Support peaked in 2005 and has fallen since then, except among MPs—many of whom will merely be toeing the line of a government keen to see new plants built.

Experts and pressure groups have tended to worry more in recent years about the cost of building reactors and how to dispose of the waste they generate than about safety risks, says Mr Taylor. But the public has very different priorities. While 55% of respondents cited waste disposal as a problem with nuclear power, 48% worried about a radiation leak and 46% about a nuclear accident. Only 13% cared about the potential cost.

Environmental groups have dismissed the government's new consultation, arguing that its aim is to sell a policy that has already been decided upon rather than genuinely to canvass voters' views. Yet greens may have little to fear. The polls reveal a striking and pervasive public distrust of official information about nuclear power. Only scientists employed by universities, a few television-news programmes and environmental groups are trusted to tell the truth. Government scientists and cabinet ministers are widely disbelieved. The most distrusted figure of all is Gordon Brown himself, although the polling was conducted before he became prime minister. Since official sources have so little credibility, any attempt to sell nuclear energy to the public may end up sharpening people's doubts.

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Northern Rock

# Soft-touch regulation

Oct 11th 2007
From The Economist print edition

**Mutual recrimination after a bank run does little to prevent the next one**

Get article background

LIKE Agatha Christie's “Murder on the Orient Express”, a whodunnit in which clues implicate all the main suspects, investigations into the sad tale of Northern Rock are turning up so many potential culprits that no one of them, it seems, can be held responsible for Britain's first bank run in more than a century. On October 9th lawmakers quizzed Sir Callum McCarthy and Hector Sants, the bosses of the Financial Services Authority (FSA), Britain's financial regulator and supervisor of its banks. With public money underpinning Northern Rock, parliamentarians wanted to know who had let the bank get into such a sorry state, and who managed its bungled rescue. Instead they were led on a merry dance through the Kafkaesque world of bank supervision, in which fiasco marks success, no one is in charge of anything and the net of culpability is cast meaninglessly wide.

Sir Callum and Mr Sants, although owning up to some shortcomings and promising to learn from their mistakes, variously blamed the bank's managers, the deposit-protection scheme and, finally, the central bank. Mervyn King, the governor of the Bank of England, mounting a spirited defence elsewhere that day, blamed regulators (in other words the FSA), the law and “the actions of the authorities [which] seemed, at least initially, to fan the flames”. On October 11th Alistair Darling, the chancellor of the exchequer, told Parliament that he would review the framework for supervising and rescuing banks, and push for more cross-border co-operation. But he is missing the main culprits: Britain's unsatisfactorily divided regulatory structure, and its famous light touch.

Start with that structure, which dates from the government's decision in 1997 to grant the Bank of England independence in monetary policy while removing responsibility for bank supervision to an emerging all-purpose financial regulator. Although not without its fans, this scheme had two dangerous consequences.

The first is that it divided information about what was happening in money markets (monitored by the central bank) from information about what was going on inside individual banks (overseen by the FSA). And it gave the organisations conflicting goals. The FSA is reluctant to let banks go bust on its watch, yet it cannot throw them a lifeline. The central bank, in contrast, can rescue banks by giving them access to money (with the agreement of the chancellor). But it may be able to tolerate a bank collapse, on the grounds that a little bloodletting today forestalls a massacre tomorrow.

A second issue is the FSA's legendary light touch, which has helped to attract footloose financiers to London and made it the world's biggest international financial centre. But this has some unintended results. In a paper in 2005, Howell Jackson, of Harvard Law School, reckoned that whereas the main aim of American financial regulation was to protect consumers, British regulation was more preoccupied with the smooth functioning of markets and keeping costs down. Elaborated rules have steadily given way to principles, and only the riskiest firms (or those most likely to make a large splash if they go bust) routinely get heavy-duty scrutiny.

In wholesale markets this approach has worked well. It is also cheap. Elizabeth Brown, an expert in regulatory law at the University of St Thomas in Minneapolis, calculates that whereas America's banking system (measured by total assets) is only a little more than twice as big as Britain's, the government spends 60 times more on regulation than Britain does.

It is less clear, however, that regulators should content themselves with a light touch where banks are concerned: the savings of retail depositors are ultimately guaranteed by the taxpayer; and problems at one bank can spread quickly through the financial system. Hands-off regulation can work only when those being regulated know they may actually go bust if they misjudge the risks they are taking. In supervising banks, the FSA's touch begins to look less light than soft.

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Offshore oil

# Two weeks on the ocean wave

Oct 11th 2007
From The Economist print edition

**A row over working hours could spiral out of control**

OFFSHORE oil is a tough business. The work is dirty and dangerous, North Sea weather is often unpleasant and violent, and the hours are long. Twelve-hour shifts are common, and, because the platforms are so far from land, many workers spend a fortnight aboard in return for two full weeks ashore.

There are advantages too: the wages are good and some workers like the idea of trading two weeks of hard work for two weeks of leisure. But not everyone is convinced that the tradeoffs are just. Offshore workers in Norway's bit of the North Sea often get three weeks off for two weeks on. On October 8th an Aberdeen tribunal sat down to hear cases brought by several trade unions, which argue that Britain's offshore employment practices violate the Working-Time Directive—European rules that the British government signed into law in 1998.

At issue is the question of what exactly counts as work. Under the directive, workers are either at work, at rest or on holiday. Employees are guaranteed 11 hours of rest in every 24, and are entitled to four weeks holiday every year. The contractors argue that workers are resting on their oil rigs when they are not on shift, and that, since they spend as much time onshore as off, they already get the equivalent of 26 weeks' holiday a year.

Not so, say the unions. Even asleep in their bunks, they assert, employees cannot spend their time as they wish. “Unlike most people, these guys are not free to go for a pint or take the dog for a walk when they clock off,” says Jake Molloy, the boss of OILC, one of the unions involved. “And if they get woken up and told they're needed to carry a stretcher or fight a fire, they can't very well refuse.” Real rest time is deferred until the workers go back onshore, leaving no time for holidays. So workers should get four weeks' proper holiday in addition to the time they already spend onshore.

What makes the tribunal especially interesting is the Damoclean shadow cast by two controversial European rulings, collectively referred to as the *Jaeger* principle. These established that workers on call (doctors, for instance) are “at work” for the purposes of working-time rules. The oil industry fears the unions' arguments are tantamount to claiming the same thing for offshore jobs. If that is so, says Oil & Gas UK (OGUK), the industry's trade association, it would cause chaos. The directive says no worker has to put in more than 48 hours a week, so oil workers would be limited to just two days offshore every week. “It would create a shortage we simply couldn't fill,” says Chris Allen, a director at OGUK. “There aren't enough skilled workers out there. Large chunks of production would just have to shut down.”

Unions insist they want nothing to do with *Jaeger*—yet. “Why would we risk the industry that employs all our workers?” asks Mr Molloy. But he adds that, if employers refuse to budge, then he will have no other choice. That is probably a negotiating tactic, but it is one that could blow up in everyone's face. Mr Allen points out that *Jaeger* is enshrined in law. The tribunal could decide it applies, regardless of either side's wishes.

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Technology in teaching

# Top marks

Oct 11th 2007
From The Economist print edition

**Spending on computers is finally paying off—with young children**

A SIX-YEAR-OLD takes a coin from her teacher and, without looking, tries to work out what it is. Big or small? Thick or thin? Round or edged? A 50p piece identified, she sits down, glowing, and a little boy has a go. Then other children take turns to identify pictures of coins on a large screen on the wall, dragging a hand-held wand across its touch-sensitive surface. After a video and pretend shopping in groups, the lesson finishes with a quiz. No hands are raised; each child answers using his own "voting pod", a hand-held half-egg-shaped wireless gizmo.

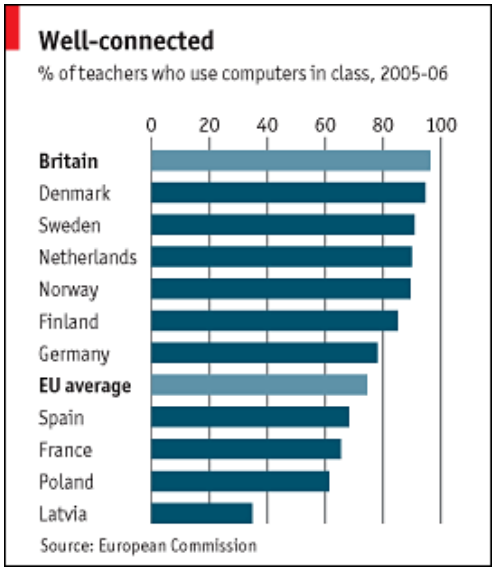
These children attend Frith Manor in Barnet, a London suburb, one of England's biggest primary schools. After it was gutted by fire in 2002, their teacher, Alison Reese, was given the task of including all the latest technology in the rebuilt version. When the new buildings opened earlier this year, each classroom was equipped with an "interactive whiteboard" (IWB)—a screen on the wall that talks wirelessly to a laptop tucked away to one side. There is even one in the school nursery, beside the climbing frame and set low enough for three-year-olds to reach.

This technology is so useful that it would be cost-effective to kit out every primary classroom in the country with a screen, according to an independent evaluation of IWBs in primary schools, published on October 9th. Teachers were able to monitor children's progress more effectively, and spent less time planning lessons and marking papers. Difficult tasks, such as using a ruler or a thermometer, were easier to demonstrate. Children paid more attention, behaved better and, most importantly, learned more.

Until recently, it was not clear that the oodles of money the government has been spending on school computers was paying off. Too many schools put the equipment in separate rooms that had to be booked in advance, rather than integrating it into every lesson. And teachers hated taking classes where every child faced the wall and stared at a screen. An evaluation in January of the use of IWBs in secondary schools found no clear benefits.

But primary schools, it seems, may be different. Technology fits well with the sort of participatory whole-class teaching that predominates in the early years, the study found; in many secondary schools it is consigned to the odd power-point presentation, passively received. In primary classrooms, teachers who have used the technology for longest are seeing the greatest benefits, this latest review concludes.

More teachers use computers in the classroom in Britain than anywhere else in Europe (see chart). Almost every school already has at least one IWB, and quite a few have one in every classroom. And unlike most other places, Britain has put more computer technology in primary classrooms than in secondary ones. That now looks prescient.




At Frith Manor, Miss Reese says pupils are motivated by being able to show what they know. The strong visual element means that children for whom English is not their native language—in her classroom, the great majority—can follow much better. Whenever she teaches something new she can set a quiz and see immediately which children are getting lost.

And what about the worry that children taught on flat screens are losing out on tactile experiences with real-world objects? Those are vital too, says Miss Reese; that's why she gives her pupils real money to feel—even if not all of it comes back afterwards. Welcome to the classroom of the future: mud-pies and fancy computer kit, and no chalk or blackboards in sight.

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Bagehot

# On optimism

Oct 11th 2007
From The Economist print edition

Illustration by Steve OBrien

**The Tories have seized what may be the most precious commodity in British politics**

**David Cameron**

THOMAS JEFFERSON was not a fan of Tories. Men and political parties everywhere, he thought, could be roughly divided into optimists and pessimists. “The sickly, weakly, timid man fears the people,” Jefferson wrote, “and is a Tory by nature.” In British politics, Jefferson's rule has broadly held. The Conservatives have usually been suspicious of change and sceptical about progress and utopias (Churchill “preferred the past to the present and the present to the future”). Their opponents—which for the past century has principally meant Labour—have tried to drag the country towards the new Jerusalem, believing in the perfectibility of human society and sometimes in the state's ability to achieve it. But in the past few weeks, what may turn out to be a decisive shift in the two main parties' dispositions seems to have occurred. The Tories have become the country's optimists.

David Cameron, their leader, said he was one in his optimistically unscripted conference speech in Blackpool. “I am by nature an optimist,” he proclaimed. He went some way towards proving it with an optimistically high estimation of the electorate's maturity. In the face of retrograde Labour efforts to portray his party as a cabal of moronic toffs, Mr Cameron confessed his posh background and expensive education. He talked idealistically if vaguely about re-enfranchising non-voters, rather than simply co-opting the floating ones.

The most important aspect of Mr Cameron's avowed optimism, however, was his emphasis on a related abstract noun: aspiration. The Tory proposals to cut the taxes paid by first-time homebuyers, and to raise to £1m ($2m) the threshold at which inheritance tax is levied, were of piddling significance in fiscal terms. The inheritance-tax idea—which seems to have been popular enough to derail the election for which Gordon Brown was preparing—would benefit only a small proportion of families, as Labour energetically pointed out before proposing a version of it. But that is precisely what is optimistic about it.

A widespread view of Britons has it that, compared with ambitious Americans—who generally elect the presidential candidate offering the rosiest view of them and their future—they are timid and melancholic. The strategic intuition behind the Tory tax ideas is that this caricature is mistaken, or at least mistaken enough for Mr Cameron to win an election by challenging it. There are indeed relatively few millionaires in Britain, even after the wild house-price boom of the past decade. But there are many people who would

like to be millionaires, just as there are many Americans who vote for tax cuts that they hope to benefit from after they get rich. The Tories' inheritance-tax coup may mean that tax in general is back as a fault-line in British politics. More conclusively, combined with Mr Cameron's social liberalism, the tax proposal has confirmed his shift away from finger-in-the-dyke conservatism towards a sunnier version of it.

This version has something in common with Margaret Thatcher's, who was also an exception to the general rule of Tory pessimism. But for all its emphasis on social mobility, her conservatism was much less keen on social freedoms and more cynically convinced that all human motives are economic. Mr Cameron's is beginning to look like a sort of understated cousin of Reaganite or Schwarzeneggerean can-do Californian Republicanism. This seems likely to be—and, to the extent that it has forestalled the early vote that Mr Cameron never really wanted, already has been—a better pitch than the miserabilism and scaremongering that lost his predecessors the last two elections. It is a better answer to the riddle of being in opposition in relatively fat times: how to persuade the country to ditch a government that, apart from Iraq (a huge exception, but one that most voters are prepared to make), has presided over much local incompetence but no real catastrophes.

## Keep smiling

Working partly on their own reading of American politics, Mr Brown's team are convinced that the main quality the prime minister needs to project is “strength”: a tough sell, after this week. But they understand that “aspiration” matters too, which explains the government's noisy pledges to build more houses. That is an issue, they hope, on which the Tories cannot compete without alienating their often nimbyish voters. The trouble is that when Mr Brown discusses aspiration, he too often seems to be talking about the relatively humble, antiquated aspiration to avoid hardship and injustice, rather than the greedy dreams of the 21st century, which in truth the state can only facilitate rather than actually realise. Odd as it sometimes looks on an old Etonian like Mr Cameron, the spiv suit of aspiration will never really fit Mr Brown. It looked much better on Tony Blair.

Meanwhile, in a bid to counteract his reputation as a tribal Labourite, Mr Brown has begun to look like a conventional Tory pessimist: the Britain of his recent rhetoric is imperilled by foreigners, degeneracy and globalisation. He has sounded as if he wants less to perfect human nature than to purge it. Perhaps the preachiness will soften, now that the election it was designed to win is off. Even so, any party that has been in government for a decade—as, for all its year-zero pretences, Mr Brown's has—is liable to be judged more on its record than on its plans, and to market itself more on its experience than on its hopes.

Pessimism, of course, may yet come to seem necessary, because of terrorism, for example, or another war. And there is still a big pessimist faction in the Conservative Party: stretching a sensible discussion about poverty into hyperbole about a “broken society”, as the Tories have done, smacks of the old, failed gloominess. But for the moment the Tory doom-mongers are quiet, and Mr Cameron has cornered the optimism market. Because of that, he has also seized another, related political commodity, likewise intangible but crucial: momentum.

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Muslims and Christians

# Table talk for monotheists

Oct 11th 2007 | ROME
From The Economist print edition

AP

**Let's talk, says a letter from Muslim leaders: the survival of the world is at stake**

Get article background

“THERE will come a day when we will agree with one another.” Those were the parting words of a Muslim participant in one of the classic medieval texts of Islamic-Christian dialogue, describing a conversation about matters of faith between Saint Gregory Palamas, a 14th-century eastern divine, and a group of Turks. A similar, if rather more qualified, spirit of optimism seems to have inspired 138 Muslim scholars—including grand muftis from most of the world's Islamic nations—who this week wrote to Christian leaders, appealing for a sort of strategic dialogue.

Almost teasingly, they suggest the basis for such a dialogue should be two commandments offered by Jesus Christ as a summary of all the law and prophecy of the Hebrew scriptures: to love God with all your might and to “love your neighbour as yourself.” Since Muslims agree with both injunctions—and could indeed back them up with copious material from the Koran—why not take them as a starting point?

As inter-religious initiatives go, the statement dated October 13th, as Muslims round the world were celebrating the end of Ramadan, was spectacular—both in the number and variety of its signatories, and in the range of its named recipients. (They include Pope Benedict XVI, every Orthodox patriarch, many other eastern prelates and the heads of the Anglican, Lutheran, Methodist, and other Christian churches.)

Also striking was the starkness of the warning it gave about the consequences of a breakdown between the two largest monotheistic faiths. Christians and Muslims, the letter pointed out, account respectively for about a third, and over a fifth, of humanity. This implies that the relationship between the two faiths could be a decisive factor in the prospects for stability in the world. “If Muslims and Christians are not at peace, the world cannot be at peace. The very survival of the world itself is perhaps at stake.”

If the message is a challenge to anybody in particular, it is to Pope Benedict, who triggered uproar in the Muslim world with a speech in September 2006 that cited (while not endorsing) a Byzantine emperor's view that Islam's only innovation was to propagate violence. The new Muslim message comes exactly a year after a previous one by 38 senior representatives of Islam which politely took issue with the pope on several matters of theological detail. The latest statement says, in effect: We still want to talk to you—and there are even more of us now—and we want to talk to other Christian leaders too.

As it happens, the timing of the initiative could be propitious from the Vatican's point of view. Since the rumpus over the pope's speech in Regensburg, the Vatican has been working quietly to repair the

damage and to position itself for a new relationship with Islam, one that combines theology with what it calls an “ethical dialogue”—in other words, a conversation about shared values, which sounds rather similar to what the Muslim authors of the letter are proposing.

In institutional terms, the pope has already reversed one move which had been seen by Muslims as unfriendly. The Vatican's department (in effect, ministry) for inter-faith relations, which had been merged with the culture department in March 2006 (and, it was thought, thereby downgraded), was restored to independent life in May this year. Its new head is Cardinal Jean-Louis Tauran, a senior figure who knows the Arab world well. The Vatican hopes that “ethical dialogue” will make it easier to raise its concerns about the hard-pressed Christian minorities living in Muslim countries such as Iraq, Egypt and Pakistan.

How might other recipients of the letter react? Rowan Williams, the Archbishop of Canterbury, is known to favour the sort of Christian-Muslim dialogue that brings together theologians steeped in a long tradition of scriptural commentary and interpretation. In other words, he sympathises with the view, held by many of the Muslims behind this appeal, that amateurish theology stokes religious extremism.

For those who wonder what difference the musings of a bunch of learned men will make to the hotheads who start riots or plant bombs, it is worth remembering that some of the fallout from the pope's Regensburg speech could probably have been avoided if the pontiff had been a little more careful over the nuances of history. Perhaps a “hot line”—of the sort that used to connect Washington and Moscow during the cold war—would be a way to forestall such avoidable problems.

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Economist.com WORLD INTERNATIONAL

Civil liberties: freedom of speech

# The tongue twisters

Oct 11th 2007
From The Economist print edition

**In the last of our series on civil liberties, we look at the difficulty of reconciling traditional freedoms of expression with the new demands of national security**

IN COUNTRIES at war, freedoms of the press and of speech are often restricted. For that reason, al-Qaeda's attacks of September 11th 2001, by precipitating a “war on terror”, also raised questions—both legal and moral—about the role of the media in free societies.

Several Western governments have used national security as a justification for limiting certain sorts of public information and public speech. The press itself has been torn: sometimes it has refused to accept limits on its freedom of expression (as when newspapers worldwide published cartoons of the prophet Muhammad that were offensive to Muslims); sometimes it has accepted them (as when those newspapers apologised). Meanwhile, the media have managed to continue their normal work, uncovering abuses at the Guantánamo and Abu Ghraib prisons, for example. So what has happened to freedom of expression under the war on terror?

If you take at face value the lip service that almost all countries pay to a free press—160 of the United Nation's 192 members have ratified the International Covenant on Civil and Political Rights (ICCPR)—then freedom of expression has had a tough time. In Pakistan this summer, lawyers and pro-democracy activists took to the streets to demand the reinstatement of the country's chief justice after his removal by General Pervez Musharraf. They succeeded. But more than 30 journalists covering later demonstrations against the general's pursuit of another term as president were injured when the police used violence against the protestors. China, whose constitution states that its citizens “enjoy freedom of speech...[and] of the press”, has announced a new crackdown on “false news”. And this week marks the first anniversary of the murder in Moscow of Anna Politkovskaya, Russia's best-known investigative writer: she is one of 18 journalists to be killed in the country since President Vladimir Putin came to power in 2000.

## Shooting the messengers

Reporters Without Borders, a lobbying organisation based in Paris, says that 113 journalists and other media workers were killed in 2006 (half of them in Iraq). Another 86 have been killed and 134 imprisoned so far this year, along with 64 “cyberdissidents”. The International Federation of Journalists, based in Brussels, puts the death toll higher, reporting “at least” 155 media workers killed last year. Whatever the real numbers, 2006 seems to have been the worst for many years, if not ever. In December 2006 the UN for the first time issued a statement condemning the targeting of journalists and calling for the prosecution of their killers.

The rising numbers of dead and jailed does not on its own mean that press freedom is everywhere in decline. Many of the reporters killed in Iraq—more than 200 since the invasion of 2003—have been Iraqis working for the foreign media, murdered not so much because they were members of the press as because they were regarded by Iraqi insurgents as “spies”. To some degree, the global increase in the number of journalists being killed, kidnapped and otherwise harassed may signify that more journalists are at work, and are growing bolder.

Nonetheless, Freedom House, a conservative American think-tank, reckons that press freedom suffered “continued global decline” in 2006. It reported particularly troubling trends in Asia, the former Soviet Union and Latin America. Attacks on the media, Freedom House points out, are not only bad in themselves; they are also a sign of worse to come, since they are almost invariably followed by assaults on other democratic institutions.

In repressive countries, the arrival of the internet has often been greeted by citizens as a wonderful way

to bypass government control, enabling dissidents to air their views and keep in contact with the outside world. For a while, this new medium did seem relatively immune to regulation. The rest of the world found out about the first few weeks of the Burmese uprising partly through internet cafés in Yangon, which had worked out how to disable the military junta's internet-blocking software. But the army soon cracked down on the Burmese bloggers, just as they cracked down on everything else.

In a study of the internet in 40 countries (excluding Europe and the United States), OpenNet Initiative, an academic think-tank, says that censorship of the internet has spread from just a handful of countries five years ago to 26 nations. Some—notably China, Iran, Syria, Pakistan, Tunisia, Vietnam and Uzbekistan—are now blocking entire internet services such as YouTube, Skype and Google Maps.

Of course, it is not surprising that such countries are suppressing freedom of expression. They need little enough excuse to do it, and the only connection between their censorship and the war on terror is that their Western friends might be more inclined than usual to forbear from criticism in case they offend an ally in the war. But none of that applies to America.

Thanks to its constitution, and especially the first amendment, the United States gives greater protection to freedom of expression than any other country. Free expression generally trumps libel, prejudicial comment about pending court cases, and so-called “hate speech”. Even so, claims Peter Osnos, senior fellow at the Century Foundation, a New York-based think-tank, since September 2001 the Bush administration's attempts “to intimidate and punish the media, or at least to manipulate and mislead it, represents one of the most concerted assaults on the first amendment since it was written.”

Under American law, government documents may be classified only to protect national security. Presidents have at times no doubt stretched the definition, but George Bush has gone further than any. Partly as a result of an executive order of 2003, the number of documents being stamped secret or classified has almost quadrupled—from 5.8m under Bill Clinton in 1996 to more than 20m last year, according to figures released by the Information Security Oversight Office (part of America's national archives). Peter Galison, a Harvard professor, reckons that “the classified universe...is certainly not smaller and very probably much larger than [the] unclassified one.” If true, more is kept hidden than revealed.

## A tilt too far

Mr Bush has always had a penchant for secrecy. In 2001 he signed an executive order allowing a president or vice-president to block the release of their papers, perhaps indefinitely, instead of within 12 years of leaving office.

But national security is the commonest justification for the vast expansion of classification. Seeking to explain his 2003 executive order, Mr Bush spoke of the need to strike the right balance between security and open government. “Our nation's progress depends on the free flow of information,” he conceded. “Nevertheless, throughout our history, the national defence has required that certain information be maintained in confidence in order to protect our citizens, our democratic institutions, our homeland security and our interactions with foreign nations.”

For many constitutional scholars, members of Congress and most journalists, the administration has tilted the balance too far towards maintaining “certain information...in confidence”. Congress has repeatedly been denied access to documents; newspapers have been threatened with prosecution for revealing “state secrets” (such as Mr Bush's warrantless eavesdropping programme), and journalists have been jailed for contempt of court after refusing to reveal their sources.

In Britain, too, freedom of expression has been under attack. With its Official Secrets Act, tough libel laws and tight restrictions on post-charge reporting of criminal investigations and trials, Britain has always placed more restrictions on free speech than America. It has now gone further. The 2006 Terrorism Act makes it a crime to publish a statement that “glorifies the commission or preparation” of a terrorist act, “whether in the past, in the future, or generally”. On the face of it, this might make criminal the statue of Nelson Mandela recently erected in Parliament Square: parts of the British government once regarded him as a terrorist.

Another British law, passed in 2005, criminalises demonstrations within a kilometre of Parliament without police permission, which normally has to be obtained at least six days in advance. This has led to farcical moments, such as the arrest of a woman picnicking in Parliament Square with “PEACE” marked in icing

on a cake, and of another for reading out the names of British soldiers killed in Iraq.

At the first meeting of the UN General Assembly in London in 1946, delegates described freedom of expression as “the touchstone of all human rights”. In practice, that freedom has never been totally unfettered, even in America. As the Supreme Court famously ruled in 1919, falsely shouting “Fire!” in a crowded theatre is not protected by the first amendment. Under the European Convention on Human Rights, freedom of expression is subject to a wide range of possible restrictions, including national laws banning speech likely to incite or “stir up” hatred against people on the basis of race, ethnic origin, religion or sexual orientation. Iceland goes further, criminalising speech that simply ridicules or insults someone on those grounds. Brazil, Singapore, Serbia, New Zealand and the Australian state of Victoria have similar race-hate laws.

EPA

**Politkovskaya, pen cut down by sword**

Since 2001, these sorts of restrictions have been expanded to apply to Muslims. Before the attacks of that year, Britain, for example, had a law prohibiting the incitement of racial hatred which applied to Jews and Sikhs (because they were deemed by the courts to be racial as well as religious groups), but not to Muslims, Christians or others. Responding to the rise in verbal and physical attacks on Muslims after 2001, the government sought to plug that gap, proposing a ban on the “reckless” use of “threatening, insulting or abusive” language against anyone on the ground of his faith. Free-speech critics insisted that some element of intent be involved, claiming that otherwise religious works such as the Bible or the Koran could be deemed unlawful.

The government relented. Under the Racial and Religious Hatred Act, which came into force on October 1st, it is now a crime for someone to use threatening words or behaviour only “if he intends thereby to stir up religious hatred”. The new law does not outlaw “expressions of antipathy, dislike, ridicule, insult or abuse of particular religions”. Comedians and satirists will thus be able to continue to poke fun at religion without fear of prosecution. But members of the far-right British National Party will no longer be able to claim that Muslim gangs are grooming and raping British children and women, helping turn British society into a “multiracial hell”, as Nick Griffin, the party's leader, is alleged to have said.

## Shutting up by choice

Sometimes the press has decided to censor itself. In September 2005 a Danish newspaper published cartoons of the prophet Muhammad. After violent protests throughout the Muslim world, most Western papers decided not to repeat the publication. Some editors who chose otherwise were reprimanded or removed. In Yemen and Jordan, they were arrested and their papers shut down.

At other times legislators have decided to curtail free speech for what they consider impeccable reasons. In much of mainland Europe, it is a crime to deny that the Holocaust took place. Last year David Irving, a British revisionist historian, was jailed by Austria for three years for this, though attempts to make Holocaust denial a crime throughout the European Union got nowhere this year. In Turkey, a string of journalists and writers have been prosecuted for the crime of “insulting Turkishness”, though both the president and prime minister say they want to abolish or amend the controversial article 301 of the penal code on which the prosecutions were based.

Attempts to gag the press in democratic countries usually fail. In America, Congress is considering a bill to allow journalists (and bloggers) to protect their sources without fear of prosecution—save when national security is at stake. Thomas Jefferson had something to say about that. “The only security of all is in a free press,” he wrote to Lafayette in 1823. “The force of public opinion cannot be resisted when permitted freely to be expressed. The agitation it produces must be submitted to. It is necessary—to keep the waters pure.”

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# Something new under the sun

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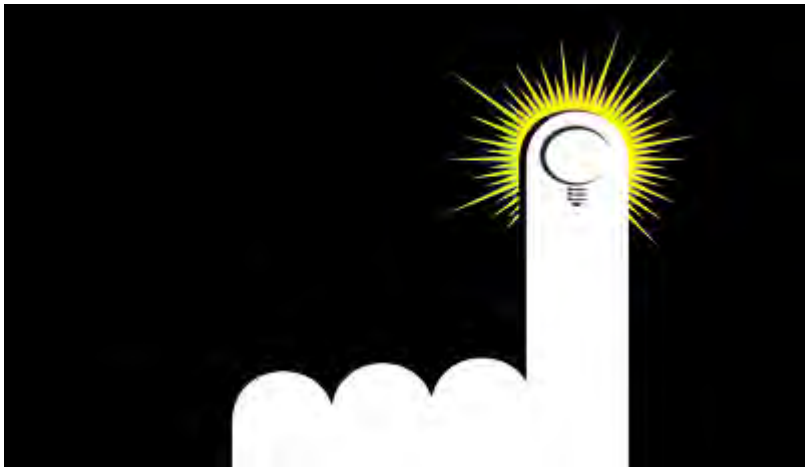
Illustration by Norma Bar



**Innovation, long the preserve of technocratic elites, is becoming more open. This will be good for the world, argues Vijay Vaitheeswaran (interviewed here)**

“A CRISIS is a terrible thing to waste,” Vinod Khosla laments to Larry Page. The two Silicon Valley luminaries are chatting one evening at the Googleplex, the quirky Californian headquarters of Google. The crisis which Mr Khosla is concerned about is caused by carmakers' addiction to oil and the consequent warming of the planet. “The energy and car industries have not been innovative in many years because they have faced no real crisis, no impetus for change,” he insists.

The two are plotting what they hope will be the next great industrial revolution: the convergence of software and smart electronics with the grease and grime of the oil and car industries. Mr Khosla is kicking around his plans for getting “chip guys” together with “engine guys” to develop the clean, software-rich car of the future. Such breakthroughs happen only when conventional wisdom is ignored and cross-fertilisation encouraged; “managed conflict”, in his words.

Mr Page, co-founder of Google, had earlier hosted a gathering of leading environmentalists, political thinkers and energy experts to help shape an inducement to get things moving: the Automotive X Prize, to be unveiled in early 2008. The organisers will offer at least $10m to whoever comes up with the best “efficient, clean, affordable and sexy” car able to obtain the equivalent of 100 miles-per-gallon using alternative energy. The charitable arm of Mr Page's firm has already taken hybrid petrol-electric vehicles, like the Toyota Prius, and turned them into even cleaner “plug in” versions which can be topped up from an electric socket.

Mr Khosla believes clean cars, using advanced biofuels or other alternatives, will come about only through radical innovation of the sort that Big Oil and Big Autos avoid. Risk and acceptance of failure are central to innovation, he argues, but the dinosaurs typically avoid both. “Big companies didn't invent the internet or Google, and much of the big change in telecoms also came from outsiders,” he adds.

Coming from almost anyone else such talk would sound preposterous. But Mr Khosla and Mr Page are not ordinary businessmen or armchair revolutionaries. Mr Khosla helped to found Sun Microsystems, a path-breaking information-technology firm, and he went on to become a partner at Kleiner Perkins, a venture-capital company that was an early backer of Amazon.com, America Online and many other pillars of the internet economy. Mr Page's Google is one of the internet's biggest success stories. At 34 he is a multi-billionaire.

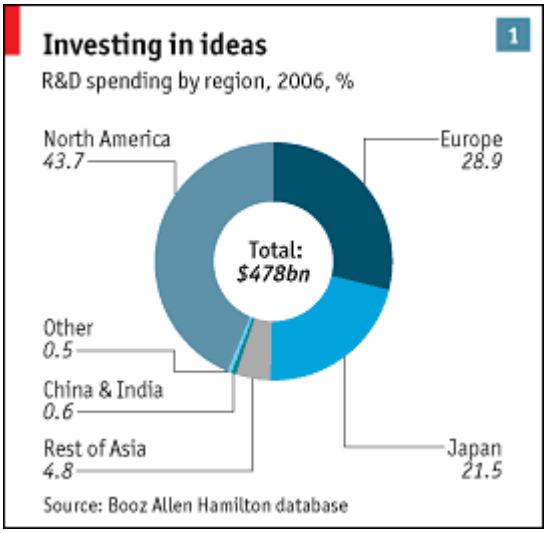
But these men are from Silicon Valley; and Silicon Valley is not America. It is tempting to dismiss such breathless talk of revolution as just more hype from people who are seeing the world through Google goggles. After all, go beyond the rarefied air of northern California and the rules of gravity are no longer suspended. The well-established industries which they mock still move at their usual but reliably glacial

pace, right?

Well no, actually. Rapid and disruptive change is now happening across new and old businesses. Innovation, as this report will show, is becoming both more accessible and more global. This is good news because its democratisation releases the untapped ingenuity of people everywhere and that could help solve some of the world's weightiest problems.

The seditious scene from the Googleplex also captures the challenge this presents to established firms and developed economies. For ages innovation has been a technology-led affair, with most big breakthroughs coming out of giant and secretive research labs, like Xerox PARC and AT&T's Bell Laboratories. It was an era when big corporations in developed countries accounted for most R&D spending.

North America still leads the world in research spending (see chart 1), but the big labs' advantage over their smaller rivals and the developing world is being eroded by two powerful forces. The first is globalisation, especially the rise of China and India as both consumers and, increasingly, suppliers of innovative products and services. The second is the rapid advance of information technologies, which are spreading far beyond the internet and into older industries such as steel, aerospace and carmaking.




What is innovation? Although the term is often used to refer to new technology, many innovations are neither new nor involve new technology. The self-service concept of fast-food popularised by McDonald's, for instance, involved running a restaurant in a different way rather than making a technological breakthrough. However, innovation can involve plenty of clever gadgets and gizmos.

One way to arrive at a useful definition is to rule out what innovation is not. It is not invention. New products might be an important part of the process, but they are not the essence of it. These days much innovation happens in processes and services. Novelty of some sort does matter, although it might involve an existing idea from another industry or country. For example, Edwin Drake was not the first man to drill for a natural resource; the Chinese used that technique for centuries to mine salt. But one inspired morning in 1859, Colonel Drake decided to try drilling for oil in Titusville, Pennsylvania. He struck black gold and from his innovation the modern oil industry was born.

## The men in white coats

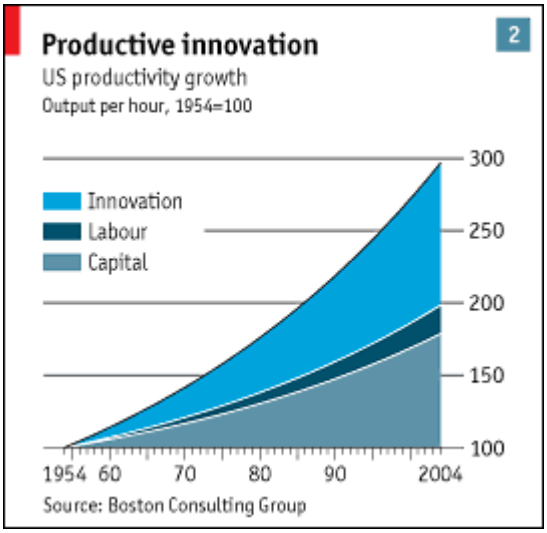
The OECD, a think-tank for rich countries, says innovation can be defined as “new products, business processes and organic changes that create wealth or social welfare.” Richard Lyons, the chief “learning officer” at Goldman Sachs, an investment bank, offers a more condensed version: “fresh thinking that creates value”. Both hit the nail on the head, and will serve as the definition in this report.

According to popular notion, innovation is something that men wearing white coats in laboratories do. And that's the way it used to be. Companies set up vertically integrated R&D organisations and governments fussed over innovation policies to help them succeed. This approach had successes and many companies still spend pots of money on corporate research. But firms are growing increasingly disenchanted because the process is slow and insular. A global study across industries by Booz Allen Hamilton, a consultancy, even concluded that “higher R&D spending doesn't ensure better performance in terms of growth, profitability or shareholder returns.”

Now the centrally planned approach is giving way to the more democratic, even joyously anarchic, new model of innovation. Clever ideas have always been everywhere, of course, but companies were often too closed to pick them up. The move to an open approach to innovation is far more promising. An insight from a bright spark in a research lab in Bangalore or an avid mountain biker in Colorado now has a decent chance of being turned into a product and brought to market.

So why does the generation and handling of ideas matter so much? “We firmly believe that innovation, not love, makes the

world go round," insists John Dryden of the OECD. Corny perhaps, but studies do show that a large and rising share of growth—and with it living standards—over recent decades is the result of innovation (see chart 2). Innovative firms also tend to outperform their peers. "We're not discovering new continents or encountering vast deposits of new minerals," Mr Dryden adds. Indeed, the OECD's experts believe that most innovation has been caused by globalisation and new technologies.




Analysis done by the McKinsey Global Institute shows that competition and innovation (not information technology alone) led to the extraordinary productivity gains seen in the 1990s. "Those innovations—in technology as well as products and business processes—boosted productivity. As productivity rose, competition intensified, bringing fresh waves of innovation," the institute explains.

That is why innovation matters. With manufacturing now barely a fifth of economic activity in rich countries, the "knowledge economy" is becoming more important. Indeed, rich countries may not be able to compete with rivals offering low-cost products and services if they do not learn to innovate better and faster.

But even if innovation is the key to global competitiveness, it is not necessarily a zero sum game. On the contrary, because the well of human ingenuity is bottomless, innovation strategies that tap into hitherto neglected intellectual capital and connect it better with financial capital can help both rich and poor countries prosper. That is starting to happen in the developing world.

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# Revving up

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From The Economist print edition

**How globalisation and information technology are spurring faster innovation**

Illustration by Norma Bar

Get article background

IF YOU want a motorcycle, go to Chongqing. Although this dusty central Chinese city of drab office buildings and perpetually grey skies is better known as the gateway to the enormous Three Gorges Dam, it is also the two-wheeler capital of the world. Led by the region's pioneers, China now makes half the world's motorcycles. But more important than the numbers produced is the way these motorcycles are made—especially the way designers, suppliers and manufacturers have organised themselves into a dynamic and entrepreneurial network.

Unlike state-run firms, the city's private-sector upstarts, such as Longxin and Zongshen, do not have big foreign partners like Honda or Suzuki with deep pockets and proven designs. So they came up with a different business model, one that was simpler and more flexible. Instead of dictating every detail of the parts they want from their suppliers, the motorcycle-makers specify only the important features, like size and weight, and let outside designers improvise.

This so-called “localised modularisation” approach has been very successful and delivered big cost reductions and quality improvements, says John Seely Brown, an innovation expert who used to head the legendary Xerox PARC research centre. It is one example of the sort of business-model innovation which he insists is far more radical than conventional product or process innovation.

## China moves ahead

Examples of these business-model innovations are now bubbling up from developing economies to threaten the established global giants. In a report with John Hagel, of Deloitte, a consultancy, Mr Seely Brown argues that the activity of private entrepreneurs means “China is rapidly emerging as the global centre of management innovation, pioneering management techniques that most US companies are struggling to understand.”

The emergence of Asian world-beaters exemplifies the two forces driving innovation. Globalisation and the spread of information technology allow the creation of unexpected and disruptive business models, like the one used by Chongqing's motorcycle-makers. Other examples include the design networks established by Taiwanese contract-producers in the textile industry. Groups of innovative just-in-time suppliers abound in Asia, feeding Western fashion and consumer-goods companies. They are often managed by supply-chain experts, like Hong Kong's Li & Fung. Unlike Japan's *keiretsu*, which bound companies and their suppliers together with interlocking shareholdings, these firms are free to leave their alliances. They stay together only if they continue to learn and profit from the experience. In some ways they resemble the nimble networks of firms that underpinned Silicon Valley's success.

Low labour costs may have given such firms a head start, but that is a transitory advantage. India's software innovators were once sniffed at as merely low-cost offshoring and back-office operations. But firms like Infosys, Wipro and Tata Consultancy Services (TCS) have become world leaders in business-software services. S. Ramadorai, TCS's chief executive, says his firm sees “innovation as a key enabler of its productivity edge”. He points out that his firm has been investing in R&D for 25 years and holds several dozen patents and copyrights. Navi Radjou of Forrester Research, a technology consultancy, applauds TCS's “global innovation ecosystem” which brings together academic labs, start-ups, venture-capital firms, large independent software firms and some of its most important customers.

Innovation is also changing the pharmaceuticals industry. Small biotechnology firms, using networked approaches, are getting ahead of Big Pharma. This too opens the way for Asian competitors, like Ranbaxy and Dr Reddy's Laboratories. These firms were once copycats, trampling on Western patents to make cheap generic versions of drugs. But increasingly they are shifting to process innovation and even new drug discovery.

Such innovation can arise out of necessity. Entrepreneurs in China must compete with privileged state firms with access to cheap credit as well as the local arms of multinationals. That makes China's “third sector”, as Messrs Seely Brown and Hagel call it, extraordinarily resourceful in trying to reach global markets. India has been less integrated into the world economy, so many of its innovative firms have initially concentrated on reaching “bottom of the pyramid” consumers. For instance, Selco, an Indian solar-energy pioneer, found that because many of its customers were living in remote areas, it had to set up local networks of trained technicians to sell, install and repair its products, and provide customers with small loans.

## Bigger names

Most of these Chinese and Indian innovators are not well known, but it is only a matter of time before some will be. Frans van Houten, chief executive of NXP, a European semiconductor firm, is convinced of that. He says there are now over 400 firms designing chips in China. So far they produce “very pragmatic, fit for use” designs, but he has no doubt they will quickly become world-class innovators. One company the big carmakers are watching closely is India's Tata Motors, which is developing a “people's car” that might radically change the process of design, manufacturing and distribution to achieve its target price of no more than $3,000. If successful in India, Tata will produce a version of the car for export.

As the knowledge component of industries continues to grow, it will lower even further the barriers to entry in many businesses. Yet the same democratisation of innovation that empowers the new firms can be used to generate much greater innovation from within established companies. Some multinationals are already doing this in Asia to keep up with their local competitors (see article).

The effects of the growing knowledge-component of innovation have become increasingly clear in heavy engineering. Reinhold Achatz, of Siemens, claims the German giant has undergone a hidden electronics revolution. “We have more software developers than Oracle or SAP, but you don't see this because it is embedded in our trains, machine tools and factory automation,” he says. Mr Achatz calculates that as much as 60% of his firm's sales now involve software. Some 90% of the development in machine tools is in electronics and related hardware, and the figure is similar for cars. A BMW, he says, is “now actually a network of computers.”

## Flat out in Germany

That may seem like an exaggeration until you step into the sleek new Hydrogen 7 BMW saloon. Push the pedal to the metal on the autobahn and the car responds as every BMW should; cylinders growling enthusiastically as the ultimate driving machine races past slower vehicles. But this car is not like any other made by BMW. Press a button on the steering wheel and it seamlessly switches from burning petrol to hydrogen.

The key to this advance, says Ulrich Weinmann, of BMW, is smart software. Electronics have been in cars for decades, but those were isolated “dumb systems”, he adds. Now cars are crammed full of networks of computers with smart software controlling and monitoring things. New BMWs can even synchronise with Apple's iPhone, and download maps and directions from Google while you drive.

The steady conversion of engineering into yet another knowledge-based industry forces the pace. “We are a quite mature industry, but customers now expect change faster,” adds Mr Weinmann. The demand for change is fastest in Asia. Several hundred new mobile phones are launched every year in China, and customers there now expect their new BMWs to be able to synchronise perfectly with each new handset, he sighs.

New competitors are emerging from unexpected quarters, which makes things difficult for established firms. One of them is Elon Musk, a 36-year-old entrepreneur who is challenging incumbents in not one

but two old-time industries. Mr Musk made his fortune during the internet boom by selling PayPal, an online payments system, to eBay for $1.5 billion. He now heads Space Exploration Technologies, known as SpaceX. This is a start-up offering private space launches. Earlier this year, it fired a rocket into space, the first to be designed, paid for and launched entirely with private money.

SpaceX is the vanguard. Many private-sector newcomers, fed up with the overbearing ways of NASA and the big defence contractors, are working furiously to commercialise space. In September the X Prize Foundation and Google decided to fuel the fire by announcing a $30m prize for the first private-sector team to land and operate an unmanned rover on the moon. Peter Diamandis, the foundation's chairman, believes the old guard is no longer able to innovate. “Real breakthroughs require risk and the ability to absorb failure, and large organisations are incapable of such risk taking,” he says.

Mr Musk is not waiting to win any prizes. Besides SpaceX, he has also started Tesla Motors, which has devised an electric sports car capable of accelerating from zero to 60mph (100kph) in four seconds and has a top speed of over 130mph. More impressively, thanks to its advanced lithium-ion batteries and lightweight carbon-composite construction, the Tesla Roadster has a range of 200-250 miles from an overnight charge. The first cars to be produced on a larger scale are expected to hit the road next year. They will cost a pricey $100,000 or so, but Mr Musk's firm has already started work on a new factory to produce a family car which the company hopes to sell at half the price.

Larry Burns, in charge of R&D for General Motors (GM), is impressed by Tesla's technology, but points out that the firm's initial output of just a few hundred cars is trifling compared with global car production of some 60m vehicles a year.

He is right, but Tesla and others are the thin end of what could be a big wedge. Besides the innovative process lowering the barriers to entry, much key intellectual property involved in carmaking nowadays is no longer guarded in-house by the likes of GM and Ford: they now outsource most aspects of making a new car (except engines) to global parts suppliers and outside firms that put together large sections, or “modules”. That makes it much easier for newcomers to buy any bits they need.

## Manufacturing is integrating

Even more important, the cost of launching a new car company has dropped dramatically. When Toyota and GM launched, respectively, Lexus and Saturn as semi-independent new companies, they had to spend billions of dollars. Now an upstart would need just a few hundred million. Paul Horn, the outgoing head of research at IBM, believes that the car industry is but one example of “the decomposition of the vertically integrated business model: car firms were once very integrated, but now don't make anything—they're integrators in a 'value net'.”

Mr Musk, mindful that he has yet to see a return on his investment, agrees the costs of entry are much lower, but gives warning that it will not be easy to take on the incumbents: “The last successful car start-up in America was 100 years ago.” Even so, he is convinced that the time has come to try because of a fundamental “technology discontinuity”: the shift from the internal-combustion engine to electric drive.

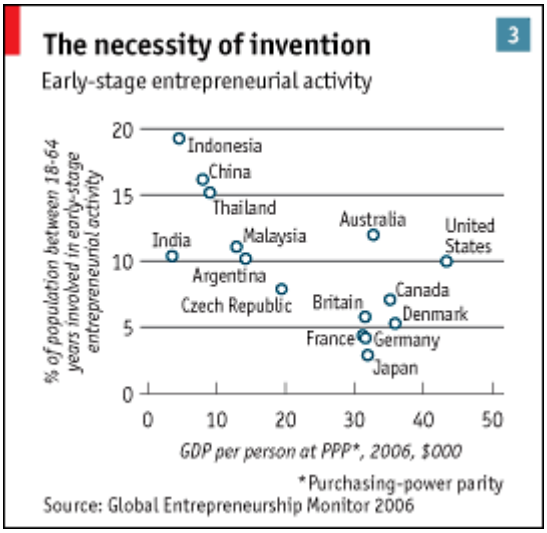
The proportion of electronics that makes up the cost of a new car has shot up from very little to perhaps a quarter. By 2010 experts think it could approach half. Thanks to recent advances in batteries and power electronics (made possible by innovations to power mobile phones and laptop computers), Mr Musk thinks most cars will become electrically powered. “In 50 years, we'll look back on the internal combustion engine and see it as a giant anachronism, like the steam locomotive.”

And again Asia could take the lead. Robert Lutz, GM's head of product development, says investment in and enthusiasm for clean technologies in Asia is so great that cars powered by fuel cells (squeaky-clean devices that use hydrogen to make electricity) are likely to take off in China before they do in the United States.

There is reason to believe he might be right. Just as villagers in Africa and Bangladesh have gone straight from no phones to mobile phones, developing countries could leapfrog with other innovations.

Developing countries already have higher levels of “early stage” entrepreneurship, with more people engaged in things such as starting new ventures—often because the necessity for doing so is greater (see chart 3). Tim Jones of Innovaro, a European

innovation consultancy, points out that Africa is about to take the lead in using mobile phones for payments and remittances, thanks to the introduction of schemes like the M-PESA money-transfer service introduced by Vodafone and Citigroup in Kenya. These allow people to send money using text messages.




Some people reckon that, as the nature of innovation changes, so it is speeding up. But that's not obvious. Other periods have seen bursts of dramatic technological progress: the arrival of the telegraph, for instance, was just as disruptive as the internet is today.

Visit Wal-Mart's headquarters in Bentonville, Arkansas, and you will be greeted by a large plaque in the lobby which says: “Incrementalism is innovation's worst enemy! We don't want continuous improvement, we want radical change.” These are the words of Sam Walton, the firm's founder. And to his credit, Walton did radically change the general store with his innovative approach to low cost, high-volume supermarket retailing. But ask Linda Dillman, a senior official at the firm, about innovation at Wal-Mart today and she concedes that radical thinking was easier when the firm was young. Meg Whitman, eBay's boss, says the same. She concentrates on incremental improvement within the online auctioneer while looking outside to acquire radical ideas by buying start-up companies, including ones in other markets that imitate eBay.

## Ideas at double speed

Many executives feel the heat is on and that they must innovate faster just to stand still. One reason is that product cycles are undeniably getting shorter. Gil Cloyd, chief technology officer at Procter & Gamble (P&G), the world's biggest consumer-products firm, studied the life cycle of consumer goods in America from 1992 to 2002 (before the internet's full impact was felt) and found that it had fallen by half. That, he concludes, means his firm now needs to innovate twice as fast.

3M, an American company famous for inventing the Post-it sticky note, also believes the world is moving much faster. Andrew Ouderkirk, one of the firm's celebrated inventors, thinks that is in part because many things that his company used to do in-house are now done by outsiders. To keep up, 3M carries out “concurrent development”, which involves talking to customers much earlier in the process to try to shorten development times.

Even the firm that laid down the first long-distance telegraph lines thinks today's innovation frenzy is unprecedented. Mr Achatz, of Siemens, is adamant that innovation is happening much quicker and that “access to information is so fast now that it allows much faster product-development cycles.” His firm is convinced that there will be an explosion of medical know-how thanks to the advance of information technology into medicine.

Perhaps managers at firms everywhere should be both far-sighted and paranoid in equal measure as they scan the horizon for unexpected competitive threats. Some companies are trying to organise themselves with management techniques to face just such a disruptive future.

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# Can dinosaurs dance?

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**Responding to the Asian challenge**

ARE consumers in India and China too poor to afford high-quality Western goods? That used to be the old idea of doing business in these countries as firms offered watered-down versions of their products at reduced prices. Mr van Houten, of chipmaker NXP, says Indian and Chinese consumers are forcing multinationals to design sophisticated products that more closely meet their needs, and this is making firms operating in Asia better innovators.

By recruiting ingenious local engineers and designers in places like Bangalore and Beijing, and paying close attention to trends and practices in the market, firms are coming up with products and services that can be sold in other parts of the world too. Nokia's engineers are finding that many Chinese and Indians access the internet mainly through their mobile handsets. Such customers' requirements of their handsets may therefore be quite different to those of Western users, many of whom have computers at home and at work.

GE's research lab in China has come up with a simplified magnetic-resonance imaging machine that costs a fraction of the one it sells in rich countries. The firm now plans to sell it worldwide. Wenda, a question-and-answer “knowledge community” product developed by Google in China to help overcome a lack of local content, was launched in Russia in June.

Unilever has long had a strong distribution network in India, but it has expanded its efforts with a division called Shakti, which provides Indian women's self-help groups with business education and the chance to earn a living selling cheap sachets of Unilever products. The effort has proved so successful that Unilever introduced a high-tech element: the Shakti entrepreneurs now run kiosks with personal computers which villagers can rent to send e-mails and browse the web for things that can make a big difference to their lives, like market prices.

Alan Lafley, who ran some of Procter & Gamble's Asian businesses before getting the top job at the American company, says many Asian firms began imitating what foreign ones did but are now “very innovative, especially with business models”.

Mr Lafley sees Indian firms shaking up the way foreign companies operate, and not only with back-office services where many began. Hours after he uttered those words, Wipro, an Indian pioneer of software services said it would open a new development centre in Atlanta, Georgia, that will report to its headquarters in Bangalore.

This is forcing P&G to innovate in other ways too. Mr Lafley uses the example of detergents in China, where the company is using a low-cost manufacturing method which he likens to Coca-Cola's “syrup” model, which supplies a concentrate to local bottlers. P&G provides secret, high-value “performance chemicals” to Chinese partners, who add basic ingredients and packaging before distributing the products.

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# A dark art no more

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Illustration by Norma Bar

**Like management methods before it, innovation is turning from an art into a science**

“WHAT matters gets measured.” That is one of the basic tenets of corporate strategy taught at business schools. As driving growth through innovation is today at the top of corporate agendas you would expect to find managers treating it like a science. After all, manufacturing philosophies such as “total-quality management” (a process of continuous improvement) and “Six Sigma” (which uses statistical methods to eliminate variations and defects) were quantified and widely deployed a long time ago, often with good results.

Yet innovation remains a frustratingly fuzzy notion. Many bosses think it is essentially a creative process. Some anoint “chief innovation officers”, bring in consultancies or set up secret “skunk works” to tease out the ideas they fear their own bureaucracy might squash. One senior executive maintains that innovation simply cannot be defined exactly, but that “like pornography I know it when I see it.”

## The wrong measure

Jorma Ollila, non-executive chairman of both Nokia and Royal Dutch/Shell, argues that it is a mistake to measure innovation by the number of patents issued by a company or the extent to which new technologies are introduced. He suggests that the most fertile area of innovation today can be found in management.

One reason why bosses might not want to be too obsessive about creativity is that generating ideas is the easy part. Exploiting them has always be harder. As Thomas Edison, one of America's greatest inventors, put it, genius is 1% inspiration and 99% perspiration. But many managers are reluctant to take the same hard-nosed approach they use in other parts of their business and apply it to fragile creative types.

If any firm has an analytical approach to innovation it should be Google. After all, the firm's superstars are its software engineers. It is so obsessed with data that it posts nerdy tip sheets on statistical-quality measurement above the urinals at the Googleplex. And yet managers sound like mumbling teenagers when they are asked how they approach innovation.

Marissa Mayer, the company's flamboyant head of “user experience”, declares that Google is not merely a search engine but “an innovation engine” that needs constantly to reinvent itself—“just like Macs and Madonna”. As 3M and some other firms do, Google grants its engineers permission to spend 20% of their paid time on pet projects unrelated to their daily job. She points to a few examples of new products that have emerged this way, such as Gmail, but cannot provide any real evidence that allowing staff to take time off from their normal jobs contributes more to the firm than it costs.

It is a question that even Eric Schmidt, Google's chief executive, cannot answer. Surprisingly, he declares that trying to measure his firm's innovation process would choke it off altogether. Tim Brown, head of Ideo, a design consultancy, concurs: “A lot of innovation is anti-Six Sigma. You want a lot of variance.”

## Fuzzy logic

Not surprisingly, Jeffrey Immelt, chairman of GE, strongly disagrees. His firm has long been a champion of Six Sigma. Mr Immelt reckons that “operational excellence” is the crucial part of innovation, not the fuzzy ideas-generation bit. He suggests that “passion and vision” might make up just 20% of the process.

Larry Keeley of Doblin, a innovation consultancy, has followed this debate closely for decades and insists the answer is clear: “Creativity is maybe 2% of the innovation process. It's a vanishingly small component, and it's the part you can acquire from outside the firm.”

Despite difficulties trying to define it, the innovation process is steadily becoming a practical science to be measured, taught and managed. Clayton Christensen, a professor at Harvard Business School and an expert on the subject, insists that “innovation simply isn't as unpredictable as many people think. There isn't a cookbook yet, but we're getting there.”

The Haas business school at the University of California at Berkeley has already gone so far as to revamp its entire curriculum to concentrate on innovation management. Berkeley is home to some of the leading experts on the subject, including Henry Chesbrough (who popularised the notion of “open innovation”) and AnnaLee Saxenian (whose recent book “The New Argonauts” analyses Silicon Valley and related innovation clusters). Richard Lyons, now of Goldman Sachs, led the revamp at Haas in his previous job. He is convinced that all managers can be taught how to nurture innovation.

The rough outline of how this might be done is emerging. But there is no one-size-fits-all strategy. Bosses have to appraise the strengths and weaknesses of their firms honestly and continuously to take account of rapidly evolving competitive threats. But cut through the clutter of PowerPoint presentations and faddish slogans, and a number of things become clear.

## All that jazz

For a start the debate over creativity versus execution should be put to rest: firms need to do both. But that does not mean they have to do it all themselves. On the contrary, the double act is best managed with a loose and open approach during the wild and woolly idea-generation phase, and a tighter, more concentrated one to turn ideas into products or services. John Kao, author of “Jamming: The Art and Discipline of Business Creativity”, likens the process to playing jazz: there is no fixed score in any given improvisation, but that does not mean there are no underlying principles either.

P&G is a good example of an inward-looking firm that has embraced creativity and openness with some success. But Mr Lafley, its chairman, makes clear this is no mystical process. He argues that even a process that is open to fresh thinking from the outside, as P&G's is, can be run the same way as a factory: “It is possible to measure the yield of each process, the quality and the end product.”

On the flip side, a firm known for emphasising execution over creativity is GE. Its focus on the practical application of new ideas, rather than invention itself, goes all the way back to its founder, Edison. Indeed, he commercialised but did not invent the light bulb.

GE's strength is not in breakthrough inventions but, to use Mr Immelt's words, “in turning $50m ideas into billion-dollar ideas.” His way of doing that is a highly structured process that involves a mix of management training, increased exposure to outside ideas (for example, his firm is starting a venture capital fund to get “early visibility” of clever inventions) and continuous funding for the development of new ideas. He also emphasises that the acceptance of failure is an integral part of the effort, as long as it is “fast failing”.

Illustration by Norma Bar

It is the last bit of Mr Immelt's process that points to one of the biggest thoughts emerging from innovation research in recent years: neither idea generation nor execution is as important or as

tricky as the filtering process that links the two. Harold Sirkin, of the Boston Consulting Group, is the co-author of “Payback”, a book on innovation strategy. He scoffs that “firms have too many ideas and too much emphasis on creativity—more ideas merely choke the funnel even more.” In fact, the more ideas a firm comes up with, the more important it is for bosses to decide early on which of them to kill off. This is to avoid heading down countless and costly dead ends. As Ron Adner of Insead, a French business school, puts it, “Innovation is a loser's game, as we know most initiatives fail. But the truly innovative companies know how to deal with losing.”

That is why failing fast and learning from those failures is so important for companies. Niklas Savander, of Nokia, argues that given today's accelerating pace of global innovation firms “need really harsh discipline to weed out ideas quite quickly—we are working at fast failing, but are not there yet.” He thinks his own company's legacy as a hardware manufacturer—a capital-intensive and slow-moving sector compared with software or services—is holding it back.

Turf wars are another obstacle to fast failing. Employees in one part of a company often reject ideas and advice from a different part. Mark Little, GE's head of research, confesses that getting his boffins to kill off unviable projects is the hardest task he faces: “Like a dog with a bone, people don't want to give them up.”

Even if firms can overcome the stigma of failure, how exactly are bosses to know which potential innovations to kill? Mr Christensen, author of “The Innovator's Dilemma”, believes he has cracked the code. He says it can require unlearning some of the things that managers often accept as golden rules. The chief one is the belief in listening and responding to the needs of your best customers.

## Siren songs

This seemingly sensible strategy can be a dangerous siren song, Mr Christensen argues. His influential book shows how even successful firms can get into trouble by trying to please their best customers. Because there may be only a handful of highly profitable, high-end buyers who want and can afford more features and better performance, firms can invest heavily in trying to deliver what this elite group wants even though the resulting products may end up beyond the reach of the majority of their customers.

That, argues Mr Christensen, allows upstarts to enter the market and offer inferior (although perfectly adequate) technologies and products at much cheaper prices and push incumbents into ever smaller niches—and ultimately out of business altogether. He cautions this “disruptive” innovation is not the same thing as “radical” or “breakthrough” innovation, although the notions are often conflated. In his view, personal computers disrupted IBM's mainframe computers and Digital Equipment's mini-computers, as did Nucor's highly efficient mini-mills to US Steel's blast furnaces.

Now Chinese and Indian firms are poised to disrupt established companies everywhere in much the same way, he argues. Their impact, he says, will be even more traumatic because both countries have a large pool of domestic customers—many of whom have only just begun consuming and do not have the same high expectations as Western customers typically have. Chinese and Indian companies can practise on their domestic customers while they improve quality to the point they can begin to export. South Korean firms have already gone through much the same process with consumer-electronics and cars—and in the process have frightened many of their Japanese rivals.

## Snap, and it's too late

In a sense, Mr Christensen's management myths echo a sentiment expressed by Edwin Land, the inventor who founded Polaroid. “People who seem to have had a new idea have often simply stopped having an old idea,” he said. Alas, his successors at Polaroid did not pay attention. The firm stuck by its successful old idea for film-based instant photography and stubbornly ignored the disruptive potential of digital imaging until it was too late. Polaroid went bust in 2001.

Mr Christensen's alternative innovation strategies include watching out for new technologies or new business models which are designed to attract customers who may not be using your product today because it too expensive or too complicated. Sony's early transistor radios were tinny compared with RCA's big home versions, but teenagers who never had radios loved these cheap devices.

He also thinks it is better to make things simpler and easier for the bottom and middle of the market, as personal computers did, rather than add needless bells and whistles for the handful of top customers who can afford and demand them. And he says companies should act decisively to co-opt or pre-empt disruptive ideas themselves, even if it threatens their core businesses in the short run.

Executives at US Steel, a traditional integrated steel-firm nervously eyeing the threat from new mini-mill technology, nearly built a cheap and cheerful mini-mill themselves to compete against the upstart Nucor. However, recounts Mr Christensen, those aspiring innovators within US Steel were forced to halt the profitable project by bean counters, who argued that it was cheaper just to produce more steel from the firm's existing blast furnaces (since their capital costs had been paid for and steel could be produced for merely the marginal cost of cranking out an extra tonne). That short-term thinking scuppered the giant firm's best chance for reinventing itself.

Peter Drucker, an eminent management guru, argued decades ago that innovation and entrepreneurship are “purposeful tasks that can be organised—are in need of being organised” and should be treated as part of an executive's job.

Is there a risk that with too many rules, firms could lose out to serendipity? Ask Mr Lafley how he intends to keep P&G's edge if innovation becomes less ad hoc and he immediately points to Toyota's embrace of total-quality management as a model. Many firms have studied the Japanese carmaker's legendary methods, as P&G's rivals are even now studying its innovation model, but none has really been able to copy it. That is because Toyota's real edge is the strong culture which drives its unrelenting quest for quality.

Bill Reinert, a senior Toyota official based in North America, explains it thus: “What's discontinuous about our firm is the very long view of management. That vision has pushed us from being a closed company to one with continuous information flows, both into the company and within it, about market, regulatory and geopolitical trends.”

A symbol of this is Toyota's Prius hybrid-electric car. It was a risky bet on an unproven technology, but it has been a huge success. It was a long-term vision, says Mr Reinert, that overcame the firm's innate caution. And in the future the company is going to have to make similar bets again. “We are convinced that we are entering a disruptive future, and we want to be ready for it,” he says. He is not alone in taking that view.

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# The love-in

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From The Economist print edition

**The move toward open innovation is beginning to transform entire industries**

BERKELEY seems like a fitting place to find the godfather of the open-innovation movement basking in glory. The Californian village was, after all, at the very heart of the anti-establishment movement of the 1960s and has spawned plenty of radical thinkers. One of them, Henry Chesbrough, a business professor at the University of California at Berkeley, observes with a smile that "this is the 40th anniversary of the Summer of Love."

Mr Chesbrough's two books "Open Innovation" and "Open Business Models" have popularised the notion of looking for bright ideas outside of an organisation. As the concept of open innovation has become ever more fashionable, the corporate R&D lab has become decreasingly relevant. Most ideas don't come from there (see chart 4).

To see why travel to Cincinnati, Ohio—which is about as far removed culturally from Berkeley as one can get in America. The conservative mid-western city is home to P&G, historically one of the most traditional firms in America. For decades, the company that brought the world Ivory soap, Crest toothpaste and Ariel detergent had a closed innovation process, centred around its own secretive R&D operations.

No longer. P&G has radically altered the way it comes up with new ideas and products. It now welcomes and works with universities, suppliers and outside inventors. It also offers them a share in the rewards. In less than a decade, P&G has increased the proportion of new-product ideas originating from outside of the firm from less than a fifth to around half. That has boosted innovation and, says its boss, Mr Lafley, is the main reason why P&G has been able to grow at 6% a year between 2001 and 2006, tripling annual profits to $8.6 billion. The company now has a market capitalisation of over $200 billion.

IBM is another iconic firm that has jumped on the open-innovation bandwagon. The once-secretive company has done a sharp U-turn and embraced Linux, an open-source software language. IBM now gushes about being part of the "open-innovation community", yielding hundreds of software patents to the "creative commons" rather than registering them for itself. However, it also continues to take out patents at a record pace in other areas, such as advanced materials, and in the process racks up some $1 billion a year in licensing fees.

Since an army of programmers around the world work on developing Linux essentially at no cost, IBM now has an extremely cheap and robust operating system. It makes money by providing its clients with services that support the use of Linux—and charging them for it. Using open-source software saves IBM a whopping $400m a year, according to Paul Horn, until recently the firm's head of research. The company is so committed to openness that it now carries out occasional "online jam sessions" during which tens of thousands of its employees exchange ideas in a mass form of brainstorming.

Mr Chesbrough, of course, heartily approves. He gives dozens of other examples of firms doing similar things, ranging from Clorax, a household products firm to Air Products, an industrial gases company. Mr Chesbrough reckons that "IBM and P&G have timed their shift to a high-volume open-business model very well" and that if their competitors do not do the same they will be in trouble.

Not everyone is impressed. Kenneth Morse, head of MIT's Entrepreneurship Centre, scoffs at IBM's claim to be an open company: "They're open only in markets, like software, where they have fallen behind. In hardware markets, where they have the lead, they are extremely closed."

## Open costs

David Gann and Linus Dahlander, of London's Imperial College, are also sceptical. They argue that firms have always been open to some degree and that the benefits differ depending on their line of business. Those using older technologies, for instance, may benefit less. They also point out that the costs of open innovation, in management distraction or lost intellectual-property rights, are not nearly as well studied as its putative benefits.

Yet another critique comes from capital-intensive industries, where products take a long time to develop and remain on sale for years. Toyota's Mr Reinert laughs when asked about open innovation. With the billions of dollars his firm spends on research and on equipping its factories—not to mention a five-year product-development cycle—he suggests it would be foolish to open up and allow rivals to steal its edge. “Eventually even Google will have to make something tangible, and when they do they will protect it—just like Tesla Motors, which does not have an open model,” he adds.

GE's Mr Immelt observes that his firm is a leader in a number of fields, such as making jet engines and locomotives, which requires “doing things that almost nobody else in the world can do” and where intellectual-property rights and a degree of secrecy still matter. Mark Little, his head of research, is even more sceptical and says outside ideas “don't really stick well here”. He professes great satisfaction with the output of GE's own research laboratories. “We're pretty happy with the hand we've got,” he adds.

Horses for courses, perhaps. Boosters of open-innovation agree that there are perils. One of them is that it is not easy to work with outsiders. Corporate cultures can sometimes clash and some outsiders are not used to working in a business environment. For example, P&G has a “co-invention” lab with BASF, a German chemicals giant with its own strong corporate-culture. Boffins from the American government's prestigious Los Alamos national laboratory also sit in on some of P&G's research-planning sessions. The consumer products firm believes that the benefits of working with people from such diverse organisations are worth the effort.

For one thing, patents are becoming much less important nowadays than brands and the speed at which products can be got to market. It is true that some of the rising stars in developing economies are beginning to take out more patents, but many of their innovations are still kept quiet as trade secrets. So fluid are their markets, and so weak the historical patent-protection in them, that bosses often prefer to keep things in the dark—and come up with the next innovation as necessary to stay ahead of the competition.

Even in developed markets, the acceleration of innovation is making patents less relevant. What is more, say brand experts at P&G (which claims not even to count patents any longer), the dizzying pace of change today confuses consumers with a baffling array of choices. Such firms are increasingly turning to trusted brands to simplify things for their customers. Andrew Herbert, head of Microsoft's research centre in Cambridge, England, puts it this way: “Our brand hides a tremendous amount of innovation.”

Open innovation also appears to keep corporate bureaucrats on their toes, making companies better at competing. The combination of exciting new technologies and juiced-up management processes has, according to Mr Lafley, helped P&G to reduce its rate of failed product-launches from eight out of ten to just half.

Unilever's David Duncan insists that his firm—one of P&G's biggest competitors—is much better connected to its customers than it was. “Twelve years ago, when I joined, we were very closed, vertically integrated and owned most of the value chain—even the chemicals and software we used,” he says. Now it is much more receptive to ideas and services from the outside, even posting challenges on the internet for people to come up with new ideas. But he too confesses that there can be difficulties: “it's like the first time you used Google; it was scary and a bit tricky, but soon you see that it's great.”

So how do you know if open innovation will work for a particular company? It may well depend not just on what a company does but also on how it is perceived in the market. Hal Sirkin, of the Boston Consulting Group, suggests that rather than see firms like P&G and IBM as truly open innovators, it is better to view them as “beacons”. They have enough world-class experts working for them to attract outsiders who have brilliant ideas. Such firms are “open” in the sense that they are now casting a very wide net in their search for ideas. However, once they have captured the essence of those ideas, argues Mr Sirkin, “they control them and the process of getting them to market.”

Illustration by Norma Bar

## At your service

On a summer day in east London, a warehouse was taken over by a company eager to make a splash. It was decked out to look like a cool New York loft. The Ministry of Sound, a London nightclub, was hired for a party afterwards. The event was packed with journalists. At last the stars took to the stage—a group of besuited Nokia executives there to announce a dramatic change in corporate strategy.

Nokia, a Finnish company, makes mobile-phone handsets which are used by nearly a billion people around the world. However, it now wants to be a services firm. Why? Niklas Savander, of Nokia, argues that the mobile-phone business “is moving so rapidly, thanks to the democratisation of the internet, that we must innovate or die.” Providing people with devices alone is not enough, the company has concluded.

With half of the value and most of the innovation in a mobile-phone handset now made up of software, “the leap to services is not so great as it seems,” he adds. Nokia is now rolling out Ovi, a branded service offering users networked gaming, music downloads and other services from their handsets.

Visionary companies need to do even more than that, argues a report by C.K. Prahalad and Venkataram Ramaswamy, two academics at the University of Michigan. They think firms should cultivate a network that includes consumers in which “personalised, evolvable experiences are the goal, and products and services evolve as a means to that end.” That sounds fluffy enough to have come straight from the Summer of Love.

Yet despite the dangers, some companies have successfully brought consumers and others into the innovation process. Lego, the Danish maker of children's building blocks did it; and it helped revive the company. Influenced by research done at MIT on how children learn, Lego launched Mindstorms, a robotics kit that allows people to design their own robots and other devices. Numerous websites have popped up as users—including many adults—come up with all sorts of ways of putting together the kit to make things ranging from intruder alarms, sorting machines and even the controls for small unmanned aircraft.

Eric Von Hippel, of MIT, has long advocated user-driven innovation. He says you can see it all around you. Users who feel passionate about certain products often fiddle around with them because they fail to provide exactly what they want. It might be a mountain bike, a kayak or even a car. He reckons open innovation misses the point if it is not inspired by users, because companies are then “just talking about a market for intellectual property rights, it's still the old model.”

Mr Von Hippel thinks that firms that are close to their lead users can come up with much better designs for new products and get them to market faster. This advice appears to contradict what Harvard's Mr Christensen says, but in fact the two theses are compatible. Mr Christensen's point is that firms should not uncritically cater to the demands of their most profitable current customers. They must question those demands or they could end up doing little more than gold-plating their current offerings; like Mr Von Hippel, he thinks firms should keep a closer watch on new and dissatisfied users, who are much more likely to be the source of disruptive ideas.

## Invented on Facebook

Mr Von Hippel adds that networks of hyper-critical users can even help firms quickly filter out bad ideas and thus encourage the process of fast failing. The craze for social networking sites, like Facebook and MySpace, could be useful. Sinan Aral, of the Stern business school at New York University, argues that how people relate to the products they use (something often discussed on such sites) reveals a social structure and preferences. That can help firms understand more about their customers and how to market products more effectively.

User networks operate in many businesses. OnStar, a mobile-information system widely launched by GM in 2000, was initially meant only to provide safety and emergency services for drivers. But motorists wanted it to do more, and they pushed GM to innovate. Now OnStar can check if a car is working properly, open the doors for a driver who accidentally locks the keys inside and even locate the nearest pizza place. GM's Larry Burns believes OnStar helps to improve his firm's brand loyalty because it keeps the company in constant touch with its customers.

Richard Lyons, of Goldman Sachs, offers the most compelling argument for firms to think hard about recruiting users to speed up and improve their innovation efforts. In rich countries about four-fifths of economic activity now involves services, but profit margins are eroding. He argues in a new paper that “commoditisation often occurs even faster in services than in physical products”, because innovations are easier to copy, patents can provide less protection, up-front costs are lower and product cycles are shorter.

For a business that uses open and networked innovation, it matters less where ideas are invented. Managers need to focus on extracting value from ideas, wherever they come from. Unfortunately government planners, who are often obsessed with national innovation policies and the need to create clusters like Silicon Valley, have not learnt this lesson. History also shows that countries that come up with new technologies are often not the ones that commercialise or popularise those inventions. Richard Halkett, of Nesta, a British research body devoted to innovation policy, jokes that the right policy for governments should be “never invented here”. He may be right.

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# The fading lustre of clusters

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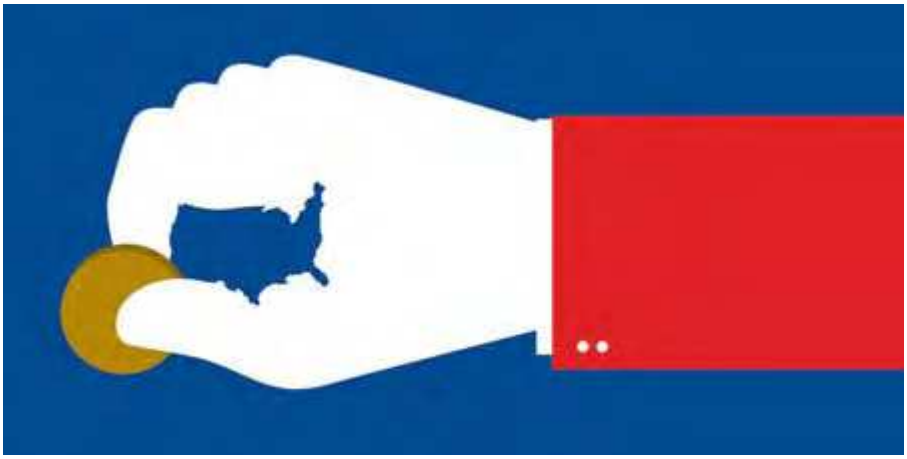
Illustration by Norma Bar



**The best thing that governments can do to encourage innovation is get out of the way**

THE scene in Salzburg earlier this year was one that Joseph Schumpeter, an economist obsessed with innovation, and Mr Drucker, the management expert, would surely have approved of. Several dozen government officials and academics from around the world gathered at Schloss Leopoldskron, a spectacular rococo palace located on the shores of an idyllic lake. They came not for the fresh Alpine air, hearty Austrian fare or even the hills alive with music. It was for a conference organised by the Salzburg Global Seminar, a non-government organisation, to discuss what they could do to turn their economies into innovation powerhouses.

Holding such a meeting in the heart of Europe seemed only fitting—and not just because the two great theorists of innovation both hailed from the region. After all, it was a European, France's Georges Doriot, who invented venture capital during his time teaching at Harvard. And it was another Frenchman, Jean-Baptiste Say, who coined the word entrepreneur two centuries ago to describe the plucky upstart who "shifts economic resources out of an area of lower and into an area of higher productivity and greater yield."

And yet the star of the show was America. Everyone wanted to learn how Silicon Valley was created and how it has managed to keep its edge despite various booms and busts. And Asia also made its mark, with innovation gurus from places like Singapore bragging about how many billions of dollars they are spending on technology parks, tax breaks on foreign investment and scholarships for their bright young things to go to MIT and Stanford.

## Out of steam

So what about Europe? The blunt answer is that the European Union (EU) is something of an also-ran when it comes to innovation. That does not mean the region has no innovative companies—it certainly has them in some areas, especially retail and financial services with firms like Zara, a Spanish fast-fashion chain, and Direct Line, a British online insurer. But these tend to be exceptions. It is not much of an exaggeration to say that, aside from mobile telephony, Europe has not come up with a globally disruptive innovation in decades—although Skype, an internet-telephony firm that is now part of eBay, once looked like it might qualify.

Europe's innovation malaise is the result of a complex mix of factors. Some places, like Ireland, Finland and parts of Scandinavia, do better than others. And Cambridge, England, can reasonably claim to have created Europe's best innovation cluster, albeit one that falls far short of Silicon Valley. The main

thing holding back continental Europe is that it is a lousy place to start a new company. It can cost a lot of money and it takes too long to set up a business (see chart 5).

Last year, venture capitalists invested only about €6.4 billion ($9 billion) in the EU, while their American counterparts splashed out some $45 billion on new ventures. The link between venture capital and innovation is a strong one. Samuel Kortum and Josh Lerner, two American academics, have shown that "a dollar of venture capital could be up to ten times more effective in stimulating patenting than a dollar of traditional corporate R&D". They scrutinised 20 manufacturing industries between 1965 and 1992, and found that the amount of venture-capital money in a sector dramatically increased according to the rate at which businesses in that sector took out patents. From 1982 to 1992, they calculated that venture-capital funds amounted to just 3% of corporate R&D but 15% of all industrial innovations.

It is true that patents have become less important in some industries and so they may be an imperfect proxy for all innovation. And in some cases venture-capital funds will follow rather than create innovation. Nevertheless, patents are still widely used and Messrs Kortum and Lerner successfully validated their results with other measurements too.

But surely innovation and entrepreneurship are not the same thing? Following the most useful definition—that innovation brings fresh thinking to the marketplace that creates value for a company, its customers and for society at large—someone who opens yet another corner café may be a successful entrepreneur but not much of an innovator.

The ones worth paying attention to are a special type of entrepreneur who embraces new ideas. These are the people who are able to carry out the "creative destruction" that Schumpeter marvelled at. In Europe they are thin on the ground: too many Europeans opt for comfortable jobs working for Siemens or Electricité de France than the risk and bother of starting speculative new companies.

This is worrying for Europe. National champions and incumbents are not disruptive innovators: upstarts are. From 1980 to 2001, all of the net growth in American employment came from firms younger than five years old. Established firms lost many jobs over that period and dozens fell off the *Fortune* 500 list.

Big corporations have been dying off and disappearing from stockmarket indices. Most of the dynamism of the world economy comes from innovative entrepreneurs and a handful of multinationals (like GE, IBM, 3M, P&G and Boeing, all of whom have stayed on the *Fortune* 500 list for over 50 years or so) and which constantly reinvent themselves.

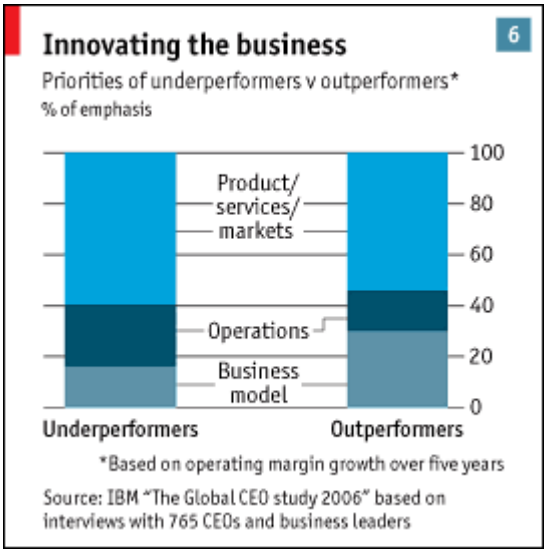
Carl Schramm, president of the Kaufman Foundation, which studies entrepreneurship and innovation, says that "for the United States to survive and continue its economic and political leadership in the world, we must see entrepreneurship as our central comparative advantage. Nothing else can give us the necessary leverage to remain an economic superpower."

## The trouble with dirigisme

America's economy is not a free-market paragon, to be sure. The internet and related industries have all benefited from the spill-over effects from government funding of universities and from military spending. However, it is wrong to think those factors alone explain America's dynamism. The Soviet Union spent lavishly on its military and space programmes during the cold war, but because its economic system was ossified there were few spill-over effects. The unintended beneficiary was Israel, arguably the most entrepreneurial economy on earth, because its many Russian émigré scientists now form the core of a vibrant high-tech sector.

What is more, Europe itself spends a lot of money on higher education and has a number of top universities with leading academics and researchers who produce excellent papers and win Nobel prizes. The problem is that their ideas tend to stay in

their ivory towers. Part of the explanation is that innovation is still seen as being driven by government spending in R&D, when in fact most of it is now in services and business models. Companies that outperform their peers put a much bigger emphasis on business-model innovation (see chart 6).




The EU has an official target to raise government R&D spending to 3% of GDP and there is much angst over patents—an obsession that Japanese planners share. The latest edition of "Science, Technology and Innovation in Europe", an annual report by Eurostat, the statistical arm of the European Commission, reveals exactly what is wrong. It is chock full of figures, broken down by region and industry, of research spending, patents filed, scientists employed and other important-sounding variables. The problem is that these are all inputs into the innovation process, not outputs. There is only a cursory discussion of venture capital and no attention paid at all to entrepreneurship—the most powerful way to turn ideas into valuable products and services.

## The world is spiky

Another problem is that EU officials, like government bureaucrats everywhere, are obsessed with creating geographic clusters like Silicon Valley. The French have poured billions into *pôles de compétitivité*; and Singapore, Dubai and others are doing much the same. There are dozens of aspiring clusters worldwide, nicknamed Silicon Fen, Silicon Fjord, Silicon Alley and Silicon Bog. Typically governments pick a promising part of their country, ideally one that has a big university nearby, and provide a pot of money that is meant to kick-start entrepreneurship under the guiding hand of benevolent bureaucrats.

Illustration by Norma Bar

It has been an abysmal failure. The high-tech cluster in and around Cambridge, England, is the most often-cited counter example. Hermann Hauser, of Amadeus Capital, a leading British venture capitalist (who, curiously, also hails from Vienna), is an optimist: "Silicon Valley is still the lead cow but Cambridge is the best in Europe." Perhaps, but that is faint praise. The main problem, argues Georges Haour, of IMD, a Swiss business school, is that Cambridge suffers from the Peter Pan complex: "inventors never want to grow up, they are happy with modest success." One veteran of the city's start-up scene even argues that its success came "in spite of, not because of" government and university support.

Experts at Insead looked at efforts by the German government to create biotechnology clusters on a par with those found in California and concluded that "Germany has essentially wasted $20 billion—and now Singapore is well on its way to doing the same." An assessment by the World Bank of Singapore's multi-billion dollar efforts to create a "biopolis" reckoned that it had only a 50-50 chance of success. Some would put it less than that.

Diana Farrell, of the McKinsey Global Institute, argues that the real problem holding back innovation in many developed countries is too much government in the form of red tape and market barriers. She points out that planning restrictions have prevented the expansion of Ahold and other highly efficient retailers in France. Closing hours in several EU countries also act as an inhibitor. The institute's studies of Japan and South Korea suggest the heavy hand of government is even more stifling in those countries: outside a small, highly competitive group of export industries (cars, electronic goods and steel), inefficient, coddled domestic sectors are slow to adopt new technologies or business practices.

Pedro Arboleda, of Monitor Group, summarises his consultancy's years of research into this matter thus: "Companies, not regions, are competitive. So the question for government is: how to attract many competitive firms?" That throws cold water on cluster-mad politicians. It also points to what are sensible prescriptions to promote innovation.

First of all, stop spreading money around trying to clone lots of Silicon Valleys. Steven Koonin, chief scientist at BP and formerly the provost of the California Institute of Technology, thinks EU countries anyway spread research funds too thinly. American officials, he says, “have no problem making big awards, so they can achieve scale.” His own firm has just done that, setting up a $500m research alliance run by the University of California at Berkeley to look into advanced biofuels.

However, there is an even more important factor than money: culture. Nokia's success was not the result of far-sighted planning or subsidy by the government of Finland. One Nokia executive confides: “The biggest boost to our firm was the deregulation that followed the second world war and the government's avoidance of protectionism.” One of the most innovative things Nokia did was to spot that the handset could also be a fashion accessory. And coming from such a small and open market, it was forced to think globally.

Secondly, governments keen to promote innovation need to look out for market distortions and over-regulation that can be stripped away. Entrepreneurs can face an uphill battle legally, and not just culturally, in many countries. The bankruptcy code in many places is excessively burdensome, even banning some failed entrepreneurs from running a company for years. Contrast that with America's Chapter 11 bankruptcy proceedings, which quickly re-deploy both the bankrupt firm's physical assets and the creative energies of its leaders.

In India an overbearing system known as the “Licence Raj” choked the creativity out of most sectors of the economy for decades, through a mix of over-regulation, petty corruption and centralised planning. But the bureaucrats in Delhi did not understand computer software well enough to regulate it. And by the time they cottoned on, innovators in Bangalore and other corners of India had created a world-class industry. A similar story may be unfolding in China. Adam Segal, of the Council on Foreign Relations, an American think-tank, has studied high-technology firms in Beijing, Shanghai, Guangzhou and Xian. His research shows that smaller firms in the private sector are likely to be more innovative than bigger ones reliant on government largesse.

Even in Africa, where chaotic and corrupt rule can impede growth in myriad ways, extraordinary innovators are starting to flourish wherever they are not choked off by bureaucrats or fat cats. John Dryden, of the OECD, observes that “freedom from legacy” (in the shape of stranded assets, like fixed-line telephony or centralised power grids) has liberated African entrepreneurs and allowed them to leapfrog with technology—from having no electricity to solar cells, for instance.

Stewart Brand, an internet pioneer and co-founder of the Global Business Network, a scenario consultancy, is convinced that if you want to see the next wave of consumer innovation, “look to the slums of South Africa, not Japanese schoolgirls.” So where does that leave the present Goliath of innovation, the United States?

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# The age of mass innovation

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From The Economist print edition

## We are all innovators now

Illustration by Norma Bar

JOHN KAO is an innovation guru described as “Mr Creativity” by this newspaper a decade ago. Now he is concerned about America losing its global lead and becoming “the fat, complacent Detroit of nations”. In his new book, “Innovation Nation”, he points to warning signs, such as America's underinvestment in physical infrastructure, its slow start on broadband, its pitiful public schools and its frostiness toward immigrants since September 11th 2001—even though immigrants provided much of America's creativity. The rise of Asia's innovators is a “silent Sputnik”, he argues, invoking a cold war analogy. What America needs, he reckons, is a big push by federal government to promote innovation, akin to the Apollo space project that put a man on the moon.

Curtis Carlson puts it in starker terms: “India and China are a tsunami about to overwhelm us.” As head of California's Stanford Research Institute, Mr Carlson knows the strengths of Silicon Valley from first-hand experience. And yet here he is insisting that America's information technology, services and medical-devices industries are about to be lost. “I predict that millions of jobs will be destroyed in our country, like in the 1980s when American firms refused to adopt total-quality management techniques while the Japanese surged ahead.” The only way out, he insists, is “to learn the tools of innovation” and forge entirely new, knowledge-based industries in energy technology, biotechnology and other science-based sectors.

It is natural to be sceptical of such dour arguments and calls for government action. After all, the United States still leads in innovation. Whether it is by traditional measures, like spending on research and the number of patents registered, or less tangible but more important ones, like the number of entrepreneurial start-ups, levels of venture-capital funding or the payback from new inventions, America is invariably at the top of the league. Indeed, the Council on Competitiveness recently concluded in a report that, by and large, the outlook is bright for America.

Yet the same council's innovation task force also gave warning that other countries are making heavy investments that threaten to erode America's position. It would like a big push in four areas: improving science, engineering and maths education; welcoming skilled immigrants; beefing up government spending on basic research; and offering tax incentives to spur “US-based innovation.”

These are mostly sensible recommendations because they focus on those framework conditions and bits of infrastructure that the market would not provide on its own. Where such prescriptions tend to go awry is when they argue for specific subsidies or tax breaks for favoured industries (like supporting only “US-based” innovation in today's world of global creative networks). After all, the Schumpeterian forces of creative destruction must be allowed to work their magic.

Resilience in the face of those disruptive forces gave Silicon Valley the edge over its nearest high-tech rival, Boston's Route 128 technology corridor. Both clusters were riding high until the personal computer and distributed-computing changed the market. Firms went through wrenching change, but those in northern California, like Hewlett-Packard and Xerox, emerged stronger than those near Boston, like Digital Equipment and Wang—which no longer exist. As Berkeley's AnnaLee Saxenian has shown, Silicon Valley's champions were nimble and networked but those on Route 128 were brittle, top-down bureaucracies.

## Where the magic happens

Sergey Brin, who co-founded Google with Mr Page, insists that “Silicon Valley doesn't have better ideas and isn't smarter than the rest of the world” but it has the edge in filtering ideas and executing them. That magic still happens and attracts people from around the world who are “bold, ambitious, determined to scale up and able to raise money here actually to do it.” Mr Brin points to Elon Musk as an example.

Mr Musk moved from South Africa to eventually settle in California to make his fortune. His equation for success is: “talent times drive times opportunity”. Unlike many countries, America is never satisfied with the status quo. “There is a culture here that celebrates the achievements of individuals—and it is too often forgotten in history that it is individuals, not governments or economic systems, that are responsible for extraordinary breakthroughs,” he says.

That explains why the best innovation policy is probably one that does the least. Liberty is a powerful force. In the past, as Mr Brin notes, innovation was dominated by elites—the “wealthy gentlemen tinkerers”, for example—who had privileged access to information, money and markets.

He is right. The history of innovation is filled with elites and centralised processes. But look closer and you find that ordinary people have always silently played a role. In “A Culture of Improvement: Technology and the Western Millennium”, Robert Friedel shows how countless small efforts by individuals, from all rungs on society's ladder, contributed to the astonishing advances that we enjoy in today's post-modern, post-industrial societies.

Imagine how much better firms and countries could innovate if they could harness the distributed creative potential of all these innovators-in-waiting. The key, Mr Friedel observes, is freedom: “Technology and the pursuit of improvement are ultimate expressions of freedom; of the capacity of humans to reject the limitations of their past and their experience, to transcend the boundaries of their biological capacities and their social traditions.”

To put it the other way round, domineering bosses and governments may notch up some success, but history shows that it will at best be limited and may stagnate. “You can ordain the money but not the brilliance and free-thinking,” says Ideo's Mr Brown. “Creative people like to challenge constraints and authority.”

As industries become more knowledge-based and more firms turn to open and user-led innovation models to keep a step ahead of disruptive innovators, governments will have to think more carefully about what, if anything, they can do to keep their economies competitive. Often that will mean a lighter touch. As William Weldon, chairman of Johnson & Johnson, a health-care giant, observes: “Innovation is no longer about money, it's about the climate: are individuals allowed to flourish and take risks?”

Stewart Brand, an internet pioneer, has famously argued that “information wants to be free.” So surely the knowledge worker, the creator of that information, also needs the same freedom. Companies and governments can find an innovator inside everyone; they just need to liberate them. Moreover, the rising tide of inventions that make one country wealthy benefits others that bring those clever ideas to market or simply make use of those products, processes and services.

In an age of mass innovation the world may even find profitable ways to deliver solutions to the 21st century's greatest needs, including sustainable clean energy, affordable and universal healthcare for ageing populations and quite possibly entirely new industries. The one natural resource that the world has left in infinite quantity is human ingenuity.

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Vijay Vaitheeswaran and Iain Carson are the authors of “Zoom: The Global Race to Fuel the Car of the Future”, published by Twelve (Hachette Book Group USA), 2007

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Corporate governance

# Keeping shareholders in their place

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AP

**Bosses around the world celebrate a series of victories over shareholder activists**

“HAVING told everyone in the world that there is no such thing as shareholder democracy in America, and that to change things they had to do lawsuits, I now discover I can't even bring a lawsuit,” complains Bob Monks. Last month a judge in Massachusetts ruled that Mr Monks could not lead a class-action lawsuit by shareholders against Stone & Webster, an engineering firm, and its former auditor, PricewaterhouseCoopers, because he is a shareholder activist, and therefore not sufficiently “typical”.

It is 16 years since Mr Monks energised the corporate-governance movement by launching a campaign (which was ultimately unsuccessful) to win election to the board of Sears, Roebuck, a retailer. During that fight he bought a full page advertisement in the *Wall Street Journal* declaring the company's existing board to be “Non-Performing Assets”. More recently, his focus had shifted from contesting corporate elections to trying to bring about change through litigation. After this ruling, he says he now feels “literally powerless”.

In the never-ending struggle between the shareholders and management of public companies, the disqualification of Mr Monks is but one of several recent victories for the bosses—and not just in America. On October 3rd the European Commission abandoned its long-running attempt to introduce the principle of “one share, one vote” into European law. The change would have strengthened legal protection for minority shareholders, which is notoriously weak in parts of the European Union. The prime opponents were lobbyists for big shareholders such as Sweden's Wallenberg family, which uses special shares to retain control of the dynasty's businesses.

In Japan a recent decision by the Supreme Court has dealt a blow to the nascent shareholder activism there. Foreign investors, mainly from America, have been putting companies under pressure to return some of their unusually large cash piles to shareholders. A prominent example is Steel Partners, a hedge fund based in New York, which since 2000 has bought stakes valued at around $3 billion in some 30 Japanese companies, including some of Japan's best loved brands, such as Sapporo beer and Bull-Dog, a sauce company.

One government minister has accused these investors of “greenmail”, market-speak for extortion. To fight them off, Japanese firms have been adopting so-called poison pills that can dilute the shareholding of an unwelcome purchaser. Over 300 have done so this year. In August the Supreme Court ruled that Bull-Dog's poison pill was legal, and deemed Steel Partners an “abusive acquirer”. Although a majority of shareholders generally approve of the poison pills, the result is to overturn the principle that all of them

are treated equally.

It would be premature to declare this series of defeats for shareholder activists a trend, not least because the balance of power between shareholders and bosses differs markedly in America, Japan and different parts of the EU. But that could change if a few more looming battles end in triumph for management.

In Germany, for example, legislation is expected to be proposed this month that would make it easier to deem that activists who co-operate on voting are “acting in concert”, and so could require them to launch a takeover bid for a company if their combined shareholdings exceed 30%. This legislation is the latest consequence of the notorious “locust attack” on the management of Deutsche Börse, operator of the Frankfurt stock exchange, led by Chris Hohn of The Children's Investment Fund and supported by a swarm of other hedge funds. According to a letter sent to the German government on October 8th by a British fund manager, Hermes, the change would be contrary to the United Nations' principles for responsible investment and “would make the job of activist investors in Germany almost impossible”.

As it is, hedge-fund activists, in particular, have not been so active of late. The credit crunch has made it harder for hedge funds to borrow money to buy shares in underperforming companies. As America's most anti-activist law firm, Wachtell, Lipton, Rosen & Katz, gloated in a recent memo: “The dark cloud of the international credit crunch...may yet have a small silver lining for public companies: the real possibility of a decline in hedge fund activism.” On the other hand, the recent evaporation of credit may also make it harder for firms to escape activists by embracing private equity.

In America battle is now being joined on several fronts. On October 9th the Supreme Court heard oral arguments in *Stoneridge Investment Partners v Scientific Atlanta*, a case that people on both sides of the wider debate regard as crucial. At issue are transactions between telecoms-equipment vendors, including Motorola, and a firm which then accounted for them improperly: if the vendors knew this, are they liable for the fraud?

Some heavyweight lawyers—including a former chairman of the Securities and Exchange Commission (SEC), America's stockmarket regulator, and several of its former commissioners—fear that if the court finds that third parties are indeed liable, it will open the floodgates for litigation. In that case, “scheme liability” as it is known, might seriously reduce the competitiveness of American business. Mr Monks, on the other hand, sees the case as a test of whether American authorities can prevent the issuance of securities based on false information.

The SEC is also at the heart of another battle over the procedures for changing companies' bylaws on elections to their boards. On October 2nd it completed consultations on two proposed rules: one that would allow companies to omit suggested changes to their bylaws from the “proxy” ballot sent to shareholders who do not attend annual meetings, and one that would oblige companies to include them.

Institutional investors protest that not even the second rule goes far enough. But opponents of shareholder activism argue that any expansions of shareholders' rights should be rejected in order, in effect, to save shareholders from themselves. More shareholder democracy, these critics believe, leads inevitably to less shareholder value. If such condescending arguments are being taken seriously, no wonder activists such as Mr Monks feel so despondent.

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Siemens

# Generation game

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**The conglomerate's new boss may rearrange more than the furniture**

PETER LÖSCHER, the first outsider to become chief executive of Siemens, one of the world's biggest electrical-engineering firms, spent his first three months at the firm travelling and listening. Then on October 4th he announced plans to centralise the conglomerate, reduce its nine divisions to three and downsize its 11-man executive board, which would truncate the power of the company's regional bosses. On the same day Siemens accepted a €201m ($285m) fine imposed by a court in Munich for bribery by its communications division, forgoing the right to appeal.

The coincidence could mark a turning point in attempts to change the firm's culture and put past scandals behind it. Last November police raided Siemens's offices, starting a scourge on bribery which so far has cost the company its chairman, its chief executive, another board member and its chief compliance officer, as well as at least €239m in fines and €179m in tax liabilities (the bribes had been deducted). What is more, in the nine months to June 30th alone, the bill for legal expenses and external advice came to €188m.

The affair has cost a great deal of management time too. Debevoise & Plimpton, an American law firm, and forensic auditors from Deloitte are still scouring the company for evidence of more irregularities. In America the Department of Justice has two investigations running, and the Securities & Exchange Commission (SEC) is also examining claims of corruption. Legal proceedings in America alone could cost Siemens billions of dollars, say analysts, although Siemens argues in its most recent quarterly filing with the SEC that its “consolidated financial position should not be materially affected” by the welter of litigation.

Analysts are confident that Siemens will not only survive but benefit from all the upheaval. “Comparable American companies have gone through this, so have Alstom in France and ABB in Sweden, and they have emerged stronger and better run,” says James Stettler of Dresdner Kleinwort, an investment bank.

The three divisions Mr Löscher has unveiled are energy products (such as power turbines and transmission equipment), infrastructure (such as factories and trains) and health care (such as MRI scanners and other clever medical kit). That does not necessarily mean Mr Löscher will sell the businesses that do not fit, such as Osram, a maker of light bulbs, BSH, a joint venture with Bosch in household appliances, and Nokia Siemens Networks, recently formed to build telecom infrastructure.

The company's supervisory board will vet the changes on November 28th. Mr Löscher may have most difficulty winning approval for those that will affect workers in Germany, whose representatives make up half the membership of the 20-strong supervisory board. If he gets his way, however, Mr Löscher's next proposal may be to register Siemens as a Societas Europaea (SE) instead of as a German joint-stock company (AG). That would entail a slimmer supervisory board with reduced representation for German workers, but would give a voice to employees abroad.

Other icons of German business, most notably Siemens's Munich neighbour, Allianz, a big insurer, have already made the switch. Mr Löscher is chummy with Paul Achleitner, a member of Allianz's board and a fellow Austrian, with whom he recently stayed for three months.

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Business television

# Squawk boxes

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**A new business channel takes on General Electric's CNBC**

TAKING on CNBC, the market leader in business television, Roger Ailes told the *Wall Street Journal* this week, will be like “our guys” versus the Germans on D-day, or like the American civil war, where Ulysses S. Grant started out a failure and a drunk, but triumphed in the end. News Corporation's new business channel starts broadcasting on October 15th. Mr Ailes, who is chairman of News Corp's Fox Television Stations Group, is often criticised, not least for his outrageous pronouncements, normally on politics. But this time his views should be taken seriously.

News Corp has a history of breaking into television markets against all the odds. Its original Fox broadcast network set the pattern in the 1990s. Later Fox News, a cable channel, triumphed against the incumbent, CNN, by presenting news in a livelier style, with a more patriotic and conservative spin.

Fox now has its sights on business television, which can be lucrative. CNBC, owned by General Electric, makes a profit of more than $400m a year, according to Richard Greenfield of Pali Research. Its money comes from cable subscriptions and from selling advertisers an audience of rich businesspeople. Only 246,000 people watch CNBC on average during the business day in America according to Nielsen. But they have an average net worth of $2.7m. Apart from Bloomberg Television, which caters mainly to people with Bloomberg data terminals, CNBC has had no competition since CNNfn, a spin-off from CNN, closed in 2004.

Nobody really knows for sure how Fox Business will differentiate itself. It does not help that Mr Ailes by his own admission has been spreading “disinformation” to confuse the Germans—sorry, CNBC. Rupert Murdoch, News Corp's boss, claims that CNBC dwells too much on failures and scandals and that the new channel will focus on innovation and success. Kevin Magee, executive vice-president at Fox News, says Fox Business will “expand the pie” for business news beyond Wall Street into Main Street. “Lots of chief executives and wealthy people with MBAs cannot understand stockmarket terms on CNBC like ‘Bollinger bands’,” he says. (They are a tool for analysing securities' prices.)

The problem for Fox is that CNBC is already doing what it prescribes. It is neither obviously anti-business nor particularly inaccessible. (Some even accuse it of dumbing down.) There is in fact an excellent reason why CNBC pleases its audience: Mr Ailes designed it when he was president of the channel in the mid-1990s. “He invented the modern CNBC with its fast-moving, joking, irreverent style,” says Howard Kurtz, author of a book called “The Fortune Tellers” about business and the media. CNBC is also home to Maria Bartiromo, the superstar of TV business journalism, who is known to (male) viewers as the “money honey”.

Fox Business's most urgent priority now is to get into more homes. It has secured distribution into 30m American houses, compared with CNBC's 90m. Mr Ailes will doubtless try to poach talent from CNBC. He hired Ms Bartiromo while there; her contract is reportedly up for renewal soon. Eventually, Fox Business will be able to make use of the *Wall Street Journal*, which News Corp will own soon. Until 2012, the *Journal* has an agreement with CNBC which gives the channel rights to the paper's journalists. And CNBC does have flaws. “Its programming has not evolved much over time, so there's an opportunity for Fox,” says Andrew McLean, president of global business for the media-buying arm of WPP, a communications firm.

It is certainly a good moment for a battle over business TV. A rising stockmarket tends to be good for ratings, and the Dow Jones Industrial Average has just hit another record high. As the credit crunch struck in August, CNBC racked up its highest viewer numbers for six years. If business stories stay centre-stage this year and next, there might just be room for more than one money honey.

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Beer mergers

# Another round?

Oct 11th 2007
From The Economist print edition

**A tie-up between two American brewers leads to talk of further mergers**

THE ordinary beer-drinking Joe may still be a touchstone of opinion in America but his thirst is not what it was. On October 9th SABMiller, one of the world's bigger brewers and America's second largest, announced a joint venture in the United States (and Puerto Rico) with Molson Coors, the country's third biggest. The pair are teaming up to take on both Anheuser-Busch, America's leading beermaker, and the country's drinkers, whose consumption of all these firms' main brews has virtually ceased growing.

The deal creates a huge operation with revenues of $6.6 billion. MillerCoors, as it will be known, will command some 29% of the American market. By extracting annual savings of $500m by the third year, it expects to be able to compete more fiercely with Anheuser-Busch and its flagship Budweiser brand. The American brewer has nabbed around half of the American beer market and pumps out 102.6m barrels of suds a year.

But beer drinking in most rich countries is growing slowly or is in decline. One estimate suggests that American spending on beer might grow by just 1.5% this year. And that increase will come courtesy of imports or boutique “craft” beers. Rich drinkers prefer to tipple on premium ales or wine and spirits. Sales of the mass-market varieties, on which America's big brewers rely, are stagnant.

Faced with dwindling sales in established markets, most big brewers have searched for growth elsewhere, namely in Latin America, Asia, eastern Europe and Africa. Although competition is often fierce, Belgium's InBev, the world's leading brewer by volume, and SABMiller have become adept at operating where margins are slim. The strategy appears to be working. In the past five years the shares of both SABMiller and Inbev have prospered while Anheuser-Busch's have languished. Anheuser-Busch still relies on its home market for around 80% of its admittedly handsome profits.

SABMiller is the product of a previous assault on the American market. In 2002 when SAB, a South African brewer, bought America's Miller for $5.6 billion, the intention was to take on Anheuser-Busch in its own backyard. But Budweiser's brewer easily withstood the attack, boosting its market share and margins.

That may change, now that it finds itself in a bar brawl against bulkier opposition. Stiffer competition and changing tastes might squeeze earnings at home, and the company lacks a thriving global business to fall back on. Building one now would be difficult, since the juiciest targets in emerging markets have already been snapped up.

So talk of a deal between InBev and Anheuser-Busch is more than just idle conversation at the bar. The American firm struck a deal last year to import InBev's profitable premium beers such as Stella Artois and Beck's. An even closer relationship might suit both. The American firm's portfolio is light on the sort of profitable, high-end beers in which InBev specialises. By the same token, despite its fine array of niche brands, InBev lacks an internationally recognised powerhouse like Budweiser. The fight for Joe's attention (and dollars) can only intensify.

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Outsourcing

# Adding sugar

Oct 11th 2007 | NOIDA AND TOKYO
From The Economist print edition

**Indian computer-services companies await Japanese customers**

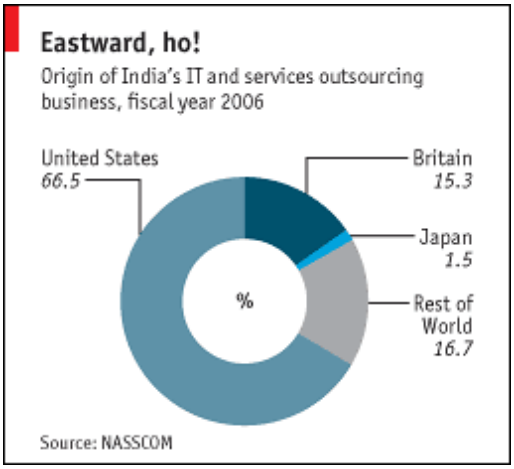
"HCL *he yokoso*!" is how visitors are greeted at an office of HCL Technologies in Noida, a dirty suburb of Delhi. The phrase means "Welcome to HCL" in Japanese, and the neat line of young Indian employees bow deeply to underline the point: HCL is ready to do business with Japan, the world's biggest computer-services market after America.

The welcome is falling on deaf ears, however. HCL, one of India's biggest computer-services firms, has been trying hard to win Japanese outsourcing contracts for a decade. Its Japan Business Unit in Noida employs 25 fluent Japanese speakers who cater to visiting Japanese businessmen and supervise training in Japanese language and culture for the firm's other employees. Around 250 software engineers are proficient enough in Japanese to converse with Japanese clients, albeit with laughably poor pronunciation. "They find it funny, but they appreciate our efforts," says Vineet Nayar, HCL's president.

Such efforts have helped put HCL ahead of its competitors for Japanese business. Early this year it announced a deal to develop software in Chennai for Konica Minolta Group, a Japanese maker of printers and photocopiers. This represents the first software joint venture between an Indian and a Japanese company. Worth around $30m over three years, it is one of the biggest Japanese outsourcing deals won by an Indian company, and reflects growing business from Japan. Yet compared with the billion-dollar contracts India's technology firms have won in America and Europe, it is peanuts. The outsourcing of services from Japan to India—or anywhere else—is in its infancy.

Last year India's computer-services companies exported around $350m-worth of goods and services to Japan, representing 1.5% of the industry's total exports. As a market for Indian outsourcing, Japan lagged behind the Netherlands and way behind America, which accounted for 67% of the total (see chart). Even these figures exaggerate Japanese companies' enthusiasm. They include contracts with non-Japanese companies for work involving operations in Japan, which represent around half of the total value.

Cracking the Japanese market would bring rich rewards. Contracts tend to be for high-value research and development work, rather than the lower-value services often provided to American companies. And Japanese firms that have taken the leap have liked it. For example, Shinsei Bank works with numerous Indian firms to run an innovative corporate network, which avoids using mainframe computers and so allows it to launch new products faster. "It's not just a cost thing, it is also a quality and service thing," explains Thierry Porté, Shinsei's chief executive. Mr Porté thinks there are not enough software engineers in Japan to do all the work that needs to be done.




Japanese companies are also keen to diversify away from China, to which a lot of manufacturing has already been outsourced, and to which they are loth to send their software business too. Indeed, it is the Japanese government's policy to promote India as a counterweight to China's economic (and military) rise. Japan has offered to help India develop a vast industrial zone, stretching 1,500km (930 miles) from Delhi to Mumbai, which could become a hub for Japanese manufacturers. But obstacles remain. The Japanese are hardly a nation of Anglophones. And unfavourable tax laws on both sides place a 10% tax on cross-border IT services between the two countries—a burden that businesses want the politicians to remove.

Still, optimism abounds. "In the next 12 to 24 months I think we'll see a genuinely big deal with Japan," says Phiroz Vandrevala, executive director of India's biggest IT-outsourcing firm, Tata Consultancy Services, "and that might open the flood-gates." The efforts by Indian companies to learn Japanese ways

may foster this. But it is not easy to get the details right, as anyone who has tasted HCL's syrupy-sweet, pea-soup-coloured green tea can attest.

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Outdoor advertising

# Visual pollution

Oct 11th 2007
From The Economist print edition

**Advertising firms fret over billboard bans**

“THE ban on outdoor advertising in São Paulo is illegal and we will prove this,” says Paul Meyer, chief operating officer of America's Clear Channel Outdoor, the world's biggest outdoor-advertising company. The councillors of Brazil's biggest city passed an ordinance banning billboards last September, and Clear Channel is suing to have it overturned. Mr Meyer says his firm's lawyers are confident that it will be declared unconstitutional. “The destruction of a business would certainly be against the law in America,” he adds.

Yet bans on billboards exist in other parts of the world—even America. Vermont, Maine, Hawaii and Alaska all prohibit them, as do some 1,500 towns. In Europe, the Norwegian city of Bergen does the same and many others are imposing severe restrictions on billboards: the mayor of Moscow, for example, is about to introduce regulation to reduce their number and size.

Even so, no big city had ever imposed a complete ban on billboards before São Paulo. The “Clean City” law also bans ads on taxis and buses and imposes strict limits on shopfront signs. Previously, most of São Paulo's billboards had been erected without permission, although Clear Channel had spent some $2m to comply with pre-ban rules on outdoor ads.

São Paulo is now ad-free. Many inhabitants of the metropolis of 11m think their city is prettier as a result. Inspired by its success, Rio de Janeiro, Brasília and Porto Alegre and even Buenos Aires, capital of Brazil's neighbour Argentina, are discussing measures to reduce or ban outdoor ads.

“This might only be the beginning,” warns Jean-François Decaux, chairman of JCDecaux, the second-biggest outdoor advertising company. In his view local companies must work together to pull down illegal billboards. Otherwise many other cities, especially in emerging economies, will be tempted to follow the Brazilian example.

For Robert Weissman of Commercial Alert, a lobby group, São Paulo's move is excellent news. Public space must not be abused for private commercial purposes, he says. Yet Mr Decaux argues that outdoor advertisers pay municipal authorities good money for the use of public space. They sometimes also provide cities with bus shelters, public loos and so forth in exchange for the right to place advertisements on them.

This trade gives outdoor advertisers and local authorities a strong incentive to work with one another. Messrs Decaux and Meyer say they are in favour of good regulation and strong enforcement. They point out that the proliferation of illegal billboards is bad for business because it distracts attention from legal ones. And the more legal advertising there is, the more reluctant city governments will be to part with the revenue and services it brings.

Regardless of the outcome of Clear Channel's lawsuit, São Paulo may well reintroduce advertising one day, for just those sorts of reasons. City governments, after all, are almost always short of cash—and it is no exception.

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Online music

# The slow death of digital rights

Oct 11th 2007
From The Economist print edition

## Record labels wrestle with the internet

Get article background

AFP

**Radiohead sing a dirge to DRM**

HOW CAN the music industry make money online? Events in recent days have hinted at the diverging strategies of record labels and the musicians themselves. Earlier this month a jury in America sentenced a mother of two who makes $36,000 a year to pay $222,000 in damages for having made copyrighted songs available on a file-sharing network. Then on October 10th Radiohead, one of the world's most successful rock bands, made good on their promise to bypass record labels altogether by making their new album available online—and letting fans set the price they are willing to pay for it.

Leading record labels, in particular, have long insisted that songs sold online should be wrapped in virtual envelopes that prevent fans from e-mailing them to friends or uploading them to a file-sharing network. They argue that this is the most straightforward method of battling piracy and so increasing their sales—and have reinforced their position with lawsuits against online pirates. But critics say this model is doomed, and that the labels will have to come up with more imaginative ways of making money.

At any rate, the music industry's once united front in favour of “digital rights management” (DRM) software is crumbling fast. In April EMI, the world's third-biggest record company, announced that it would forgo DRM. In August Universal Music Group, the industry's number one, began experimenting with DRM-free downloads. Since then, Wal-Mart and Amazon, the world's biggest retailers, have started selling songs without software to prevent copying. Even Microsoft and Sony, both leading developers of DRM, have moved away from the technology.

Rumours of DRM's death are exaggerated. The technology will survive, if only to monitor the usage of certain files and to protect other digital goods, such as computer games and films. Nonetheless, the trend shows how desperate record companies, faced with declining sales and profits, have become. As it has become clear that online music sales, though growing, will not make up for the decline in sales of old-fashioned compact discs, more and more music executives are beginning to conclude that DRM is not the solution to their problem. It is easily circumvented, makes life difficult for law-abiding fans and does nothing to prevent the copying and online distribution of music from CDs.

Yet the most pressing reason for the music industry to ditch DRM, says James McQuivey of Forrester Research, a consultancy, is to undermine the bargaining power it inadvertently gave to Apple by insisting on it. Thanks to the success of Apple's iPods and its iTunes music store, most legally downloaded songs are protected by the firm's own DRM technology, called FairPlay. That helps it to negotiate favourable terms with the labels, such as the right to sell all songs at the same price. Dropping DRM, the theory runs, will weaken Apple's position, because other online retailers could then sell tunes for the iPod.

That prospect is unlikely to leave Steve Jobs, Apple's chief executive, trembling in his boots. The “lock-in” of the firm's music store is based more on branding and ease of use than on DRM. And getting rid of it would probably make digital music even more popular, and so increase the sales of iPods, which bring much more profit to Apple than iTunes.

Still, Mr Jobs will certainly be interested to learn whether consumers do indeed buy more songs online if DRM is done away with. Economic theory suggests that they will: less friction should lead to higher demand. Alas, EMI and Universal's trials are not very telling: the former charges a higher price for DRM-free songs, which are also of higher audio quality, while the latter sells only part of its catalogue that way.

Moreover, EMI will not give any results (other than saying that the experiment is going surprisingly well) and Universal has yet to see a spike in sales.

Abandoning DRM might at least force record companies to develop new business models that focus not on the songs themselves, but on the activities that go along with them, argues Mark Mulligan of Jupiter Research, another consultancy. As a whole, the music industry is already moving this way; witness the trend to have artists sign “360-degree contracts” that include concert, merchandise and endorsement deals. Madonna, for one, is said to be thinking of abandoning her long relationship with Warner Brothers Records in favour of such a contract. But record companies are still experimenting with such tactics online. Ideas include bundling songs with things like video games and having big consumer-goods firms pay for music which they can then pass on to their customers through their websites.

Radiohead's test may set an example for more such experiments. Besides naming their own price for the new album, fans can also buy a luxury version: £40 ($82) will buy a box containing two vinyl LPs and two CDs as well as artwork and lyric booklets. To Guy Hands of Terra Firma, the private-equity firm that bought EMI in August, it is “a wake-up call which we should all welcome and respond to with creativity and energy”, as he wrote in an e-mail to EMI's staff. The file-sharing mother, meanwhile, has decided to appeal.

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Face value

# Offers refused

Oct 11th 2007
From The Economist print edition

Sidercem

**An Italian businessman who has broken ranks and crossed the Mafia worries he will pay a high price**

TO MOST observers, Marco Venturi must seem like a model southern Italian businessman. He is a shareholder and director of Sidercem, a firm founded by his father in 1982 that checks the quality of construction materials. Two years ago he became chairman of the small businesses' association of Caltanissetta, the province where he lives in Sicily. Last year he took up the same job at the local chamber of commerce.

Not everyone approves of Mr Venturi's enthusiastic involvement in civic circles. In August, his wife found a bag outside their home containing two bullets, along with a note saying that he had gone too far. It was only the latest of a series of threats from local *mafiosi*. The authorities have provided two armed policemen to protect him.

Whether the Camorra around Naples, the 'Ndrangheta in Calabria, or Cosa Nostra in Sicily, Italy's Mafias remain a force to be reckoned with. On October 2nd, following a long string of arson attacks around the province, Caltanissetta's prosecutor-general called for the army to be sent in so that more policemen would be available to fight crime. In a survey that tried to measure the risk of extortion in Italy's different provinces, Caltanissetta ranked second, after a province in Calabria.

But few southern businessmen, Italy's prosecutors gripe, ever dare to report the mobsters' misdeeds officially, let alone campaign against their influence. That is how Mr Venturi earned the Mafia's ire. His troubles began three years ago, when he took part in a campaign to dislodge the long-standing chairman of Caltanissetta's branch of Confindustria, the national businessmen's association. The man in question, Pietro Di Vincenzo, had been arrested in 2002 for aiding and abetting the Mafia and would receive a sentence of one year and eight months in prison in a plea bargain in 2005. Although Mr Di Vincenzo has never been found guilty of any crime, last year a judge in Caltanissetta ordered the sequestration of his business empire on suspicion of ties to the Mafia. It consists of around 40 firms, worth some €270m ($348m at the time), in construction, water treatment and waste management—industries often said to interest the Mafia.

While Mr Venturi was working to secure a worthier successor to Mr Di Vincenzo (the eventual winner is now also under police protection), Caltanissetta's bosses let him know their displeasure. On Christmas Eve in 2004, Mr Venturi and his eldest daughter found a note that read "*Dimetterti bastardo*" ("Resign, you bastard") pinned to the entrance to their home. The house was burgled two weeks later. Another of the Mafia's unequivocal warnings arrived a year later, when he was one of four business leaders to

receive a rabbit's severed head.

Nicolò Marino, an anti-Mafia prosecutor in Caltanissetta, is interested in the sort of construction projects which firms like Mr Di Vincenzo's undertake and Mr Venturi's inspects. His investigations into this murky world led a judge to order, in July, the preventive sequestration of two ready-mix concrete works belonging to Calcestruzzi, a subsidiary of an Italian-owned cement group. Mr Marino is sceptical about the willingness of firms, generally, to refuse to deal with the Mafia. “There is collusion because that is the rule here,” he says. Northern companies, he adds, are no more principled than local ones, and quickly start paying up while denying that they are victims of extortion. “Everybody pays,” insists Mr Marino, “but nobody speaks out.”

Mr Venturi sees grounds for hope, however, saying that businessmen now talk about the Mafia, whereas 20 years ago many publicly denied its existence. And there are other positive signs. At the beginning of September, Confindustria's Sicilian branches decided that members who submit to extortion will be expelled. Two weeks later, a judge ruled that the Caltanissetta branch of the federation could appear in a Mafia trial as civil co-plaintiff, a ruling that Mr Venturi described as a big step forward. According to the judge, extortion and other Mafia activities represent a serious and real threat to “the freedom of economic initiative” and so damage businessmen's interests.

Jerrycans of petrol sometimes appear outside the warehouses of unco-operative businessmen—an ill-disguised warning of arson attacks to come. Mr Venturi claims that no one has attempted to extort money from his firm since the 1980s, and that his business has not suffered because of his actions. Sidercem's 60 engineers, geologists, chemists and technicians ensure that construction projects are built to specification by checking the strength of steel bars and the quality of materials like concrete and asphalt used in roads, bridges and buildings; it has inspected some projects undertaken by Mr Di Vincenzo's group. Work in Sidercem's modern laboratories has carried on as normal, says Mr Venturi, despite the upheaval in his life.

## Do mafiosi ever forget?

Nonetheless, Mr Venturi is still anxious. “I worry about what may happen two years ahead when the fuss has subsided. That is when the Mafia may strike,” he says. Meanwhile, his firm continues to invest and is diversifying into forensic analysis for which there is a growing call. “We often think about leaving here, but that would not be fair to our employees,” muses Mr Venturi, who was born in Abruzzo, in central Italy, and whose father came from Trent, in the north. His wife, a Sicilian, is naturally frightened for their young daughters and is upset at how their home has been violated.

Like Caltanissetta's prosecutor-general, Mr Venturi thinks the police need more resources. The authorities' failure to provide them contributes to a general mistrust of public institutions and doubts about their commitment to tackling the Mafia. Mr Marino, too, wonders how much of the political support for anti-racket groups is sincere. “It is not the police, nor magistrates, but the Mafia that controls Sicily,” he says.

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# Corrections: Maltese lire and Vought Aircraft Industries

Oct 11th 2007
From The Economist print edition

In "Virtual bridges" (October 4th) we said that 550m Maltese lire were worth $188m. At current exchange rates, it should be $1.8 billion. Sorry.

In "Barrelling along" (September 27th) we said that the fuselage barrels of Boeing's 787 were delivered to Vought Aircraft Industries in Charleston, South Carolina. This is a joint venture between Vought and Alenia North America, a division of Alenia Aeronautica.

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The Airbus A380

# The giant on the runway

Oct 11th 2007 | TOULOUSE
From The Economist print edition

AFP

**Despite its difficult birth, Airbus's new super-jumbo is about to enter service. So begins the next stage in the battle for the future of air travel**

Get article background

FLYING from Changi Airport to Sydney, in the blue and gold livery of Singapore Airlines, the Airbus A380 will at long last enter commercial service on October 25th. On board the giant double-decker plane will be about 470 passengers, many of whom will have bought their seats in an eBay auction, raising $1.9m for charities. For both the airline and the manufacturer, the day will be one of celebration, when delays, spiralling development costs and financial controversy can be put to one side. But it will also mark the next stage of a commercial saga in which fortunes are wagered on the way the world will fly.

Few industries are more given to self-dramatisation than the aviation business. The decision to build an important new plane invariably means “betting the company”, while the aircraft itself is usually referred to by its messianic (or blinkered) maker as a “game-changer”. Both were true of the first Boeing 747, which the A380 has been designed to replace. The original jumbo jet entered service nearly 38 years ago and the financial strain of developing it almost brought mighty Boeing to its knees. But the huge leap in capacity offered by the 375-seat 747-100 compared with the next biggest plane then available, the 250-seat McDonnell Douglas DC-8, transformed both the experience and the economics of long-haul flying.

Boeing's 747 gamble eventually reaped rich rewards. Without a direct competitor and with nearly 1,400 sold over its long life, the 747 has been a matchless earner. Apart from that beautiful flop, the Concorde, no other aircraft is as recognisable or as loved. With the A380, Airbus has now risked everything; not only to kill off its rival's greatest cash cow, but also to create a similarly enduring icon to capture the imagination of the world's travellers.

Its success will depend not only on the quality of the aircraft, but on whether there is demand for a plane that can fly more than 500 passengers in a conventional three-class configuration or more than 800 in a single-class layout. Airbus is in no doubt that there is; Boeing, explaining its decision to offer only a mildly updated jumbo—the 747-8—in competition to the A380, says that the market has changed and Airbus has got its sums wrong.

## A long time coming

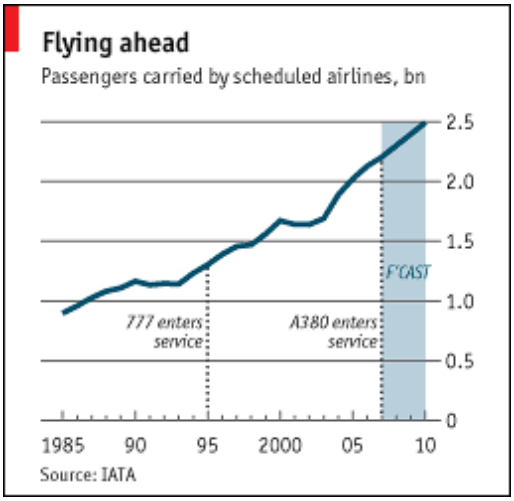
The design of any new airliner begins years before its first flight. Appropriately for a super-jumbo, the

A380 has had a long gestation. Airbus began looking at the possibility of building a 600-800 seat aircraft in 1990. But two years later Daimler-Benz and British Aerospace, two of the partners in the Airbus consortium as it then was, pushed for co-operation with Boeing on what prosaically came to be known as a new Very Large Commercial Transport (VLCT). Both companies knew the risk of competing head-on over such a big new aircraft. An earlier battle between the McDonnell Douglas DC-10 and Lockheed's L-1011 had weakened both firms and pushed Lockheed out of the commercial-aviation business entirely.

Jürgen Thomas, a veteran German engineer appointed to lead the project and who became known as the father of the A380, remains convinced that Boeing was serious about the partnership. Others were less sure. The view that came to prevail within Airbus, particularly with its French chief executive at the time, Jean Pierson, was that the Americans wanted to string the talks out for as long as possible.

For one thing, Boeing was insistent on producing a plane substantially bigger than the 747, which would complement rather than replace it. For another, as long as there was no agreement on how to build the VLCT, Boeing could continue to milk its 747 monopoly. It is said to have used its estimated $30m profit per 747 to cut the price of its other jets, like the 737, which face direct competition from Airbus.

The Europeans eventually plucked up the courage to go it alone in 1995. A year later they created a self-contained Large Aircraft Division, under Mr Thomas. After a series of meetings with prospective customers, Airbus became convinced that there was indeed a large market for a modern plane capable of carrying between 550 and 650 passengers up to 9,000 miles (15,000km). Airbus forecast that if air travel continued to grow by about 5% a year (see chart), there would be a need for 1,235 such aircraft by 2020. In April 2000, seven weeks before its official launch, one of those potential customers, the fast-growing Dubai-based airline Emirates, showed its faith in the project by declaring that it would buy ten A380s. By the end of the year Airbus had five more customers: ILFC, an influential aircraft-leasing operator, Air France, Singapore Airlines, Qantas and Virgin Atlantic.




As well as offering the range the airlines said they were looking for it also had the room: by placing one cabin on top of another, the A380 has 50% more floor area than a 747-400. Airbus also promised operating costs would be at least 15% per passenger less than those of its Boeing rival. It committed itself to much lower noise levels for passengers and people living near airports and to lower emissions.

But amid the excitement stoked by Airbus and its customers—there was talk of bars, shops, casinos (from Virgin's Sir Richard Branson) and showers in first class—it intensified a furious debate between Boeing and Airbus over the future of aviation. That debate rages on even as the A380 enters service.

Boeing argues that the market for very large, long-haul planes has been fragmented by the increasing popularity and capability of so-called “heavy twins”—big, twin-aisle planes with only two engines—and that aircraft like its own 747 and the A380 are now no more than “niche products”. Boeing began the trend with the 777. Known as the “Triple Seven”, it can carry more than 350 passengers in three classes and its longest-range version can fly more than 10,000 miles. When the Triple Seven entered service in 1995, airlines were worried that passengers would not relish the idea of flying across oceans on only two engines (even though such aircraft can manage on just one in an emergency). But such is the reliability and power of modern high-bypass turbofan engines that it has ceased to be a worry.

Airbus competes in the heavy-twin market with the slightly smaller A330 and, after several false starts, is developing the A350 XWB (extra-wide body) for entry into service in 2013. But it is Boeing that has set the pace with its 787 Dreamliner, a plane with a revolutionary all-composite fuselage made out of several single-barrel sections rather than a conventional frame with panels. The 787 should have flown by now, but is running late because of a shortage of aluminium fasteners and problems with its flight-control software. On October 10th Boeing said first deliveries of the 210-330-passenger plane will be delayed by six months to late November or December 2008. It is a blow, but with more than 800 firm orders and commitments Boeing will still have the most successful launch in the history of commercial aviation.

## Bypassing hubs

Boeing believes that a combination of airline deregulation and the popularity of heavy-twin aircraft have

changed long-haul flying for good. Instead of the hub-and-spoke system, in which passengers flew in 747s to big hub airports and then took short-haul flights to their final destination, Boeing says that passengers now want the convenience of flying point-to-point and that smaller long-haul planes make it both possible and economical for them to do so. As evidence, Boeing points to the drying-up of orders for passenger versions of the 747.

Airbus has some equally persuasive counter-arguments. John Leahy, an American who is the top salesman at Airbus, dismisses the Boeing claims as not just wrong but irresponsible. “It's ridiculous,” he says. “Boeing's answer means burning more fuel per passenger, putting more strain on overloaded air-traffic control systems and creating more congestion at airports that are already finding it difficult to cope.”

Given the expected tripling of air-passenger traffic over the next 20 years, Airbus predicts that very large aircraft will reach some 3,400 flights a day out of 200 airports around the world. About 70% of those flights, however, will emanate from just 25 airports, many in Asia (see map). Today, 80% of 747 flights connect 37 airports. Airbus also points out that half the world's 100 fastest-growing long-haul routes connect two big hubs, such as Hong Kong-London and New York-Tokyo. The point is that many hub airports are also the origin and destination for more and more passengers.

Many of these big city airports are under enormous capacity and environmental strain. Significant expansion at London's Heathrow, for example, will be impossible without the construction of a third runway—and few believe it will ever be built because of restrictive planning rules and local political opposition. A recent order by British Airways (BA), the world's biggest 747-400 operator, for 12 A380s with options on a further seven has bolstered the Airbus case.

Willie Walsh, BA's chief executive, said that the A380's superior capacity would allow it to grow from its creaking Heathrow base, while its quietness—it spreads noise over only half the area that a 747-400 does on take-off and less than a third on landing—was also important. As one Airbus executive put it: “Willie would have had trouble explaining to the neighbours why he'd bought a noisier, dirtier aircraft [the 747-8] even if was a bit cheaper.” Likely destinations for BA's A380s include Johannesburg, Hong Kong and points in India and America's west coast, but not, for now, New York. And as Boeing quickly pointed out, at the same time as BA announced the A380 order, it also said it would buy 24 787s. Honours even.

Perhaps more worrying for Airbus, the BA order was the A380's first from a new, as opposed to existing, customer for the best part of two years. Airbus says that it is usual for orders to slow in the year or so before an aircraft enters service, as more cautious airlines wait to see how it performs. It also says that the 46 orders it has taken in the past year, bringing the total to 185, compares well with other aircraft at similar stages in their lives.

## Delays on the line

The question that nobody can answer is how deeply the production problems that have assailed the A380 have affected confidence in the aircraft and its maker. The first delay was announced in June 2005, when Airbus confessed that delivery would be six months later than promised. Almost exactly a year on, another delay of up to seven months was announced.

News of the second delay knocked 26% off the value of shares in EADS, the parent company of Airbus, and led to the resignations of Noël Forgeard, its joint chief executive, Gustav Humbert, chief executive of Airbus, and Charles Champion, then in charge of the A380. The company's failure to provide more timely information about the scale of its problems also triggered investigations into the share dealings of executives and EADS board members. A report by the French stockmarket regulator has been sent to prosecutors.

Airbus

**A greener footprint**

The mood at Airbus's base in Toulouse is one of frustration rather than fear. But those senior managers who have so far survived both the resignations and a big overhaul of the once dysfunctional relationship between Airbus and EADS face an unwelcome distraction at the very least.

Part of the explanation for the catastrophe was the sheer complexity of the A380. The cabin wiring—more than 330 miles of it and over 40,000 connectors in each aircraft—caused problems because two incompatible versions of computer-aided design software were used. The Germans in Hamburg had one system, the French in Toulouse another. When the electrical harnesses came to be fitted in the forward and aft fuselage sections, many didn't connect with each other. Despite efforts to resolve this, it was decided in October last year that only by updating the computer-design tools would Airbus get on top of the problem. That meant a third delay.

John Leahy recalls that when airlines were told that not only would Singapore's first aircraft be delivered late, but that everyone else's orders would slip again, “they were stunned, speechless.” The reason was the need to deal with the work on two tracks. Although a new system for installing the harnesses was being developed, the first 26 aircraft would all need difficult and time-consuming rectification work. It will be another three to four years before production reaches its intended rate of four planes a month. Another consequence was that a freighter version would be delayed until at least 2014, which lost Airbus orders from both Fedex and UPS and raised its expected earnings shortfall up to 2010 to €4.8 billion ($6.8 billion).

Despite the setbacks, all due to the poor execution of industrial processes rather than design, it has not all been bad news for the A380. Despite rumours that it was overweight and struggling to meet performance targets, the indications are that Airbus has delivered a remarkable plane that, as long as they can fill it, will provide airlines with the step-change in operating economics they were hoping for. With reduced fuel burn from its Rolls-Royce Trent 900 or Engine Alliance 7200 turbofans, lower maintenance costs from its 25% composite airframe and its advanced avionics, Airbus claims the A380's cost per seat has come out at 20% below that of the 747-400.

## Back at the gate

Another achievement is that despite the aircraft's size and weight, the A380 can take off and land on the same runways as the big Boeing, thanks to the efficiency of its wings. There is no need to build longer runways, although airports have had to spend heavily to make space for the plane's wingspan at departure and arrival gates—which must also be modified to allow upper-deck passengers on and off.

Above all, passengers stand to gain most. Stephen Forshaw, of Singapore Airlines, says that while meeting or exceeding noise and emissions targets was extremely important, the catalyst for ordering 19 A380s was the opportunity to provide its customers with more comfort and a better environment. “Keep it in mind that this is an aircraft—it has physical limitations and must meet economic considerations,” he says. “But we have been able to bring about a revolution in business class with four-abreast seating and much more personal space and privacy. Even in economy, there are two inches more legroom, extra seat width and larger TV screens. There will be 12 suites on the main deck which, with its straight walls, has a unique feeling of space. The plane is also remarkably quiet inside.”

Singapore believes that life for 747 operators, such as All Nippon Airways and Japan Airlines, faced with direct competition from airlines flying the A380 will be hard. Mr Forshaw adds: “A lot of customers are sitting back, but they'll have to move at some point. We're very confident this aircraft really is a game-changer and everybody will have to play by the new rules.”

If that is right, the prospects for the A380 may be rather brighter than either Boeing or Airbus's critics would like to think. Boeing's emotional investment in the 747 and the difficulty it has in coming to terms with the end of its long reign as the flagship of long-haul travel is understandable. But so far, Boeing has only received 20 orders for the passenger variant of its 747-8—all from Germany's Lufthansa, which is also buying 15 A380s and has options on more. Between an aircraft that is at the end of a 40-year evolution and one at the beginning of what is likely to be a similarly long career, there is no contest. The debate about hubs versus point-to-point flying is also a largely sterile one: one doesn't exclude the other and it will be horses for courses.

But it is harder to say whether the A380 will ever match the 747's commercial prowess. Its firm order tally of 185 aircraft to date from 15 airlines is respectable. But there are only seven more established 747 operators to sell to and existing A380 customers may take a long time to come back for more. Airbus now reckons the market for very large aircraft to be 1,665 by 2025, with 55% of the demand coming from the Asia Pacific region, some of it from new carriers. Cautiously, it predicts taking only 50% of the market, but it is reluctant these days to say how many aircraft it needs to sell to break even. Recently, Louis Gallois, EADS chief executive, admitted that the number is higher than a previous figure of 420 because of the slower build-up in production and the effect of a weak dollar.

However, even if the market turns out to be smaller than Airbus is hoping for, the A380 looks likely to dominate, if not monopolise, long high-density routes for years to come. And with time on its side, it might even produce a return on the money it has cost to put into service—nudging €20 billion according to some estimates. For airlines and passengers, the A380 should be nothing but good news. But for Airbus it will have been a long, bumpy and, at times, perilous ride.

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Commercial property

# View from the top

Oct 11th 2007
From The Economist print edition

Corbis

**It looks a long way down from the peak of the global market for office space**

BANKING crises and property crashes often go hand in hand. That is one reason why America's housing bust has so troubled investors and policymakers recently. Commercial property, too, has a history of boom and bust that has brought havoc to the financial markets: think of the Japanese property slump during the 1990s (see article), or Britain's secondary-banking crisis of 1973-74, when too much lending to property developers helped cause the London stockmarket's worst year of the 20th century.

Even though commercial and residential property do not necessarily move together, the same factors associated with the American housing market—tighter lending standards and slower economic growth—should hurt business demand for office and retail space as well. Like residential mortgages, loans for offices and shops have been bundled up and sold to investors. So could some swanky offices and shopping centres eventually suffer the subprime fate?

Until early this year there was plenty of evidence of hubris. In February the $39 billion paid by Blackstone, a private-equity firm, for Equity Office Properties, a big landlord, was a record price for a buy-out—and the seller, Sam Zell, has a reputation for shrewdly judging the top of the market. In Britain, the share prices of property firms had surged ahead of the government's decision, after years of dithering, to introduce the tax-efficient Real Estate Investment Trust (REIT) structure in January. During part of 2006, more than half the money flowing into British mutual funds was invested in property.

For whatever reason, investors have since taken fright. “The market has had a bucket of cold water poured over it,” says Tony Horrell, head of European capital markets at Jones Lang LaSalle, a commercial agent. Shares in property companies took a battering over the summer, making the sector the worst performer in the American market in May, June and July, according to Lipper, an information group.

But is this really the start of another bust or simply some judicious profit-taking? Commercial property has been the asset to own this decade. Figures from the National Association of Real Estate Investment Trusts, an industry body, show that an investment in American property at the start of 2000 would have more than quadrupled in value by the end of last year. By comparison, the leading American share index, the S&P 500, returned just 8% over the same period.

This has not been just an American phenomenon. According to the Investment Property Databank, 16 out of the 21 national property markets it covers delivered double-digit returns last year. A global economic boom, allied with a desire by investors to diversify from equities and bonds, made property appealing.

Despite investors' enthusiasm, industry experts argue that the market has not seen some of the excesses that marked previous cycles. There has not been the kind of overbuilding of skyscrapers that usually spells severe trouble. The latest survey by Reis, a research firm, found that the vacancy rate in American offices

was 12.5% in the third quarter, the lowest for six years. Rents grew by 2.4% between the second and third quarters, a slower rate than before but still a respectable one. Mr Horrell says that in most European markets the fundamentals for commercial property are good and that rents should continue to grow.

Andrew Jackson of Standard Life Investments, a fund-management firm, argues that commercial-property investors are not as dependent as their home-buying counterparts on borrowed money; the average gearing of the REITs he invests in is just 31%. As a result, tighter lending standards have not had the dramatic consequences that they have had in the residential sector. There has not, as yet, been the sharp rise in loan delinquencies that was seen in subprime mortgages.

The credit crunch has undoubtedly had an effect on confidence but so far it has not been catastrophic. “A number of transactions are on hold while investors wait to see how deals are repriced,” observes Jonathan Thompson, head of real estate at KPMG, an accountancy firm. “Debt is still available but the cost has gone up a bit and the loan-to-value ratio has fallen.”

Ken Cohen of Lehman Brothers says that the volume of new loans to finance property deals has fallen by half since May and June when credit was widely available. In turn, this has led to a sharp fall in the issuance of commercial mortgage-backed securities (CMBSs), the products that consist of repackaged loans which helped propel the structured-finance market before it seized up.

That means property is likely to behave in a patchy fashion. Some markets that were overextended, such as Britain's, are already seeing a retreat for the first time in 15 years. Norwich Union, an insurance company, downgraded the valuation of one of its main property funds by 2-3% in September, while British Land, a leading property group, abandoned plans to sell a shopping centre in Sheffield in northern England. In other markets, investors may start to shun properties in poor locations or with low-quality tenants. But they will still be attracted by city-centre buildings that have been pre-let or by markets that are soaring, such as Asia's.

A lot may depend on whether the debt markets recover their confidence. In America, in particular, a healthy property market requires a revival in CMBS issuance. Mr Cohen of Lehman reckons that by the new year the market could be getting back to normal. Investors will be looking to make their allocations into property for next year, he believes, and it will help that they will not have been swamped with issuance in the second half of 2007.

Commercial property is no longer the bargain it seemed a few years ago, when rental yields were well above those on government bonds. But it will probably take a recession, in America and elsewhere, for the recent wobbles to turn into an outright crash.

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Property in Japan

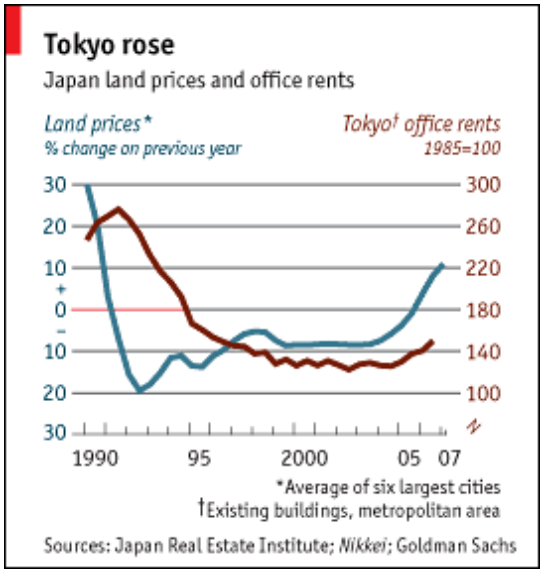
# Back from the grave

Oct 11th 2007 | TOKYO
From The Economist print edition

**It has taken 16 years for commercial-property inflation in Japan to turn positive**

Get article background

THERE was a time when the price of the land surrounding Japan's Imperial Palace (about the size of Disneyland) was said to be worth more than the whole of California. Apocryphal, surely, but it summed up the hype during Japan's property bubble in the late 1980s. When prices plunged—by as much as 80% in two years—it took the economy more than a decade to emerge blinking out of the bomb crater. Only now is Japanese commercial property showing renewed signs of life.




Prices of offices and commercial premises jumped by 10.4% last year in the three biggest cities, Tokyo, Osaka and Nagoya. In Tokyo's chic shopping district of Omotesando, they were up by 40%. Only parts of the country are benefiting: nationwide, commercial-property prices rose by 1%. That sounds skimpy, but it was still the first increase in 16 years.

The foundation stone of the recovery was laid in the depths of Japan's recession in the late 1990s, when heavily indebted banks and firms sold property, largely to foreigners. Low yields on Japanese government bonds encouraged domestic investors to step gingerly back into the market through new investment trusts. As the economy slowly recovered, vacancy rates declined and national land prices and rents increased. Rents in Tokyo also inched up (see chart).

Foreigners have remained keen buyers. Goldman Sachs has spent around $15 billion since 1997 on Japanese property from office towers to golf courses to spas. This month it launched a $1.1 billion joint bid for a Japanese property-investment firm. In August it paid $330m for the Tiffany building in Tokyo—around double what the jeweller bought it for in 2003. Meanwhile, Morgan Stanley has invested around $17 billion in Japanese property. It recently closed its sixth real-estate fund, of $8 billion. Some 40% is earmarked for Japan.

For the first time since the second world war, Japan's property market is driven by yields—the difference between rental income and borrowing costs—rather than just capital gains, notes Yasuyo Yamazaki, a property expert. But there still appears to be room for values to rise, provided global credit markets do not seize up. Most land is no dearer than in the 1970s. In Tokyo, commercial-property prices are a fraction of their (albeit insane) peak in 1988.

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India's economy

# A Himalayan challenge

Oct 11th 2007
From The Economist print edition

**India needs to tackle rigid labour laws to reach its full growth potential**

Get article background

THE Organisation for Economic Co-operation and Development has long lectured its rich member countries about pursuing free trade, privatisation and flexible labour and product markets. It has now produced its first economic survey of India, which once had some of the world's most interventionist economic policies. India wins much praise for its reforms over the past two decades, but the OECD reckons that the country still has a long way to go: on many measures India scores badly relative to both member countries and the other emerging giants.

India's market reforms have brought big rewards. The OECD estimates that on today's polices, India can sustain annual growth of more than 8%, up from 3.5% during the three decades to 1980. The economy has been growing even faster, by more than 9%, over the past two years, but this has pushed up inflation, forcing the central bank to raise interest rates.

The OECD reckons that India cannot reach the government's medium-term growth target of 10% without further bold steps. These include reducing government meddling in the economy, labour-market reform and improving the infrastructure.

Take the labour market. India has by far the most restrictive employment-protection laws for collective dismissals, scoring much worse than China and Brazil as well as rich countries (see chart). Manufacturing firms need to obtain government permission to lay off workers from factories with more than 100 staff. This partly explains why most firms are so small: 87% of employment in Indian manufacturing is in firms with fewer than ten employees, compared with only 5% in China. Small firms cannot reap economies of scale or exploit the latest technology, and so suffer from lower productivity than big firms.

India's reforms have certainly boosted the productivity of many firms. The snag is that unprofitable companies, which should have been squeezed out by competition, have remained alive because it is so hard to fire workers. This reduces productivity across the economy. India's hiring and firing laws also explain why the growth in manufacturing has been weak compared with the boom in services, which are not covered by the same rules.

The OECD's indicator of product-market regulation (ie, the extent of state ownership, the red tape involved in setting up a business, and barriers to international trade and investment) again puts India at the bottom of the class. India has the second-highest government subsidies relative to GDP of all countries surveyed and the highest import tariffs.

There is compelling evidence that further reforms would boost India's growth. Industries in which the government has eased regulation and encouraged competition, such as telecommunications and IT services, have grown fast. State-owned firms still account for 38% of output in the formal non-farm business sector, yet the OECD estimates that private firms are on average one-third more productive than public-sector ones. States with looser labour- and product-market regulations enjoy higher labour productivity.

Sadly, further bold reform is currently blocked by the communist parties on which the coalition government depends for its majority. In an economy where income per person used to rise by barely 1%

a year, today's growth rates feel like a miracle. But to eliminate India's vast poverty the country must try harder.

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Buttonwood

# It's a Wonderful Mess

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**The costs of clearing up the subprime crisis**

IN THE old days, when a borrower had problems making the payments on a loan, he would seek the advice of his neighbourhood bank. If the manager was a kindly soul (think of James Stewart in the film "It's a Wonderful Life") and the borrower had a plausible story to tell, the terms could probably be rearranged.

But that was before loans were repackaged, securitised and placed in the portfolios of investors everywhere from Atlanta to Zurich. As a result, clearing up the subprime mortgage crisis could be even messier than many people expect.

Inevitably, many lenders will foreclose on the homeowner. According to a website called www.foreclosures.com, that happened to 731,000 Americans between January and September. But foreclosure is time-consuming and expensive, taking 18 months on average and costing an estimated 20-25% of the loan balance. The departing householder might also trash the property.

So it might make sense to modify the terms of the loan; better that the homeowner makes some payment and keeps his home. Even this strategy, however, has its pitfalls.

A recent survey by Moody's, a rating agency, found that companies that serviced subprime mortgages had modified just 1% of the loans on which rates had been reset earlier this year. Their workload is bound to increase dramatically as loans taken out in 2006 are reset (to much higher interest rates) in the early months of 2008. But Moody's is concerned that the creditors are still communicating with most borrowers by letter rather than taking a more personal and active approach.

Joseph Mason, who teaches finance at Drexel University, was one of the first to warn that subprime defaults would have dangerous consequences for the financial-services industry. He has now written a paper, "Mortgage Loan Modification: Promises and Pitfalls", illustrating the problems that may ensue when those who service loans try to alter their terms.

Mr Mason says it will simply be impossible to modify the terms of many loans, particularly those where borrowers inflated their stated income by 50-70%. But even where loans can be restructured, this can merely delay the inevitable; preliminary data suggest that modified loans suffer a 35-40% default rate over the following two years. The biggest success rate occurs when the loan-to-value ratio is below 66%, a condition that rules out recent subprime borrowers.

Modifying a loan is nowhere near as expensive as foreclosure but it does involve visits to the property and meetings with the borrower. The cost could easily be $500-600. That may be a significant burden for smaller loans. Lenders tend to be paid a fee of between an eighth and a half of a percentage point of the loan balance, so $500 would eat up the first year's fees on a $100,000 loan.

Nevertheless, the creditor has an incentive to get some kind of deal with the borrower. That would allow the loan to be classed as "current" rather than "delinquent". And unregulated institutions still have a fair degree of discretion over whether loans are described as current; some require three consecutive payments to be made, others just one.

That is just one problem for investors in mortgage-backed securities; it is shared with those who own structured products, such as collateralised-debt obligations (CDOs) that might buy mortgage-backed loans. Many of them clearly did not realise that loans were being made to people who could not afford to repay them.

But it seems unlikely that the transparency of the process will improve. As Mr Mason points out, there is

no industry standard for modifying terms and it is not clear how well it will work, particularly at a time when house prices are falling. Will getting some cash out of borrowers in the short term (by, say, extending the life of the loan to reduce the payments) prove a better deal for investors than immediate foreclosure?

It is one thing to assess the effects of modifying terms on a single mortgage-backed security, which is likely to have one firm servicing it. It is another to figure out the value of the mortgage pools within a CDO, which will own a diversified pool of securities.

Nor is it clear what will be the upshot of Congress's attempts to protect struggling borrowers and to punish what it sees as predatory lenders. In short, investors are dealing with a new set of complex securities, based on loans to a new type of borrower, where the loan terms and conditions may not be clear and at a time when house prices are falling nationally for the first time in living memory. It is not going to be fun.

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Debt

# Switching off the lites

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From The Economist print edition

**The balance of power in credit markets is finally shifting**

WHEN a handful of big Wall Street banks reluctantly funded part of a $26 billion takeover of First Data, a transaction-processing firm, in early autumn, there was jubilation among those eager for any sign that the chaos in financial markets was abating. It did not mean debt would flow freely again, though. Indeed, it marked the first, feeble sign that creditors were regaining the upper hand after years of bowing and scraping to borrowers.

At the end of weeks of wrangling over the terms of the loan, the banks finally managed to squeeze from Kohlberg Kravis Roberts (KKR), a private-equity group buying First Data, a concession helping them make sure that the debt would be repaid. Such “covenants” vary, but the important ones are those that either prevent a company from borrowing too much (known as leverage covenants), or force it to earn enough to pay interest (coverage covenants). These girdles were fairly common until a few years ago. Companies that broke them had to pay a penalty to their creditors or were forced into bankruptcy.

In recent years as liquidity expanded, banks held on to fewer of the loans that they originated, syndicating them instead to money managers such as hedge funds. Borrowers found that such creditors, in their hunger for higher yields at a time of low interest rates, were quite willing to drop safeguards altogether, leading to a surge of “covenant-lite” loans. Because banks held on to fewer loans, they relaxed their guard. According to Standard & Poor's LCD, a research unit which tracks leveraged lending, the share of non-investment grade loans held by banks in America fell by over 30 percentage points to around a fifth between 2000 and the first six months of this year. In Europe that share fell from over 90% to well under half.

But as the credit markets have slowed and institutional investment has clammed up, banks have returned, keeping more loans on their books. And they have also brought back covenants. It may be too late in some cases—Moody's, a rating agency, expects the proportion of lowly rated companies that default to rise from 1.3% to 3.5% globally in the next 12 months. But it is welcome nonetheless.

If credit conditions deteriorate, banks and other creditors will be far less patient with erring companies than they were. During the boom, borrowers could often get covenants waived. Not any more. Whereas covenants exist mainly to keep companies on the straight and narrow, they also earn banks a handsome fee each time they are breached. That is an incentive to be tough.

Banks have also sought to stop large borrowers, such as private-equity funds, from funnelling money to companies they own that are in danger of violating covenants. This practice, known as an “equity cure”, was used to give companies a quick bill of health even if the finances were unsound. It is likely to stop. As William May of Fitch Ratings, another rating agency, points out, companies hoping for a prepayment option on any new borrowing in order to refinance their loans at a cheaper rate, will almost certainly have to pay their lenders a premium for doing so. Finally, more exotic forms of borrowing such as payment-in-kind notes, which allowed companies to pay interest in bonds rather than cash, have faded—for now, at least.

The new conditions that the banks finally imposed on First Data after long negotiations with KKR are considered to have been quite lenient. “What we are seeing even now is a mix of the older, more aggressive form of lending coexisting with newer, more conservative types of loans,” says Kristi Colburn, of GE Capital Markets. The liberal regime may not have been toppled, but it is tottering.

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Spanish banking

# ¡Vamos!

Oct 11th 2007
From The Economist print edition

**A Catalan savings bank launches Spain's biggest IPO**

SANTANDER may have grabbed more headlines for its role in the winning bid for control of ABN AMRO, a Dutch bank. But it is not the only Spanish bank to have its sights on foreign shores. Shares in the investment vehicle of La Caixa began trading on October 10th in a move designed to help the Barcelona-based savings institution, the country's third-largest bank, step up its presence abroad.

The listing of 20% of the shares in Criteria CaixaCorp, which owns stakes in a variety of industrial and financial companies, raised €3.5 billion ($4.9 billion), making it Spain's largest-ever initial public offering. Retail investors, who are proving a useful source of funding for many issuers in these credit-constrained times, snapped up 55% of the shares on offer. Institutional investors, traditionally wary of holding companies, seemed to be less enthusiastic.

Juan María Nin, boss of La Caixa, argues that Criteria's industrial holdings, which include stakes in some of Spain's biggest energy and utility companies, are in mass-market retail businesses where La Caixa can bring its banking expertise to bear. But Criteria's appeal to investors rests more on a stick-to-its-knitting strategy. Investments in the financial sector account for just 17% of the company's portfolio, but that proportion will grow in future, as Criteria invests in foreign retail banks.

La Caixa is looking abroad because room for expansion in its domestic market is limited. The bank already has the largest branch network in Spain, where the mortgage market was slowing even before the credit squeeze. It has plans to increase the number of branches further and to expand its private-banking activities. There are cross-selling opportunities with some of the specialised financial companies already in Criteria's portfolio, which includes a vehicle-renting firm and a consumer-credit business. But the real growth opportunities lie outside Spain.

Criteria already owns stakes in BPI, a Portuguese bank, and Boursorama, a French online bank. Armed with fresh capital, its attention now will turn to eastern Europe, America and Asia, where it took a small stake last month in Hong Kong's Bank of East Asia. Criteria wants influence to go with its shareholdings. “We are in the kitchen, not the restaurant,” says Mr Nin, who plans to share managers and knowledge from La Caixa with those it invests in. The La Caixa brand will stay in Spain.

La Caixa's lead will be closely watched by other Spanish savings banks, which are unlisted and run by a combination of depositors, employees and local government. The flotation of its investment vehicle confers the legitimacy of market scrutiny on La Caixa as it ventures abroad while allowing it to retain its special status at home. But that balancing act will be tested if its foreign interests grow beyond a certain scale.

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Economics focus

# A workers' manifesto for China

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From The Economist print edition

**How workers are losing out in China, and why it matters to the rest of the world**

CHINA will soon boast seven of the world's ten biggest shopping malls. Yet Chinese households are hardly the most eager shoppers. Consumer spending has fallen from 47% of GDP in the early 1990s to only 36% in 2006, the lowest proportion in any large economy (see left-hand chart). At the other extreme, American households consume 70% of GDP.

It is widely agreed that China needs to rebalance its economy in favour of consumption and away from exports. Not only would this make future growth more sustainable, but it would also reduce China's huge trade surplus. However, to boost the share of consumption, you first need to understand why it has been declining. The popular explanation is that Chinese households have been saving an increased slice of their income because of greater uncertainty over the provision of pensions, health care and education. This leads economists to focus on how to encourage households to spend more of their income.

The problem with this theory is that in the past decade households' saving rate has fallen not risen. According to Louis Kuijs*, an economist at the World Bank's Beijing office, household saving fell from 21% of GDP in the mid-1990s to 15% in 2006. Relative to personal disposable income, the saving rate has fallen from over 30% to 25%. This is very high compared with America, where households save less than 1% of their income, but it is lower than India's household saving rate. China's total domestic saving rate is higher and has increased strongly since the late 1990s, but all of this increase, says Mr Kuijs, has come from firms and the government.

The decline in the ratio of consumption to GDP does not reflect increased saving; instead, it is largely explained by a sharp drop in the share of national income going to households (in the form of wages, government transfers and investment income), while the shares of profits and government revenues have risen. Most dramatic has been the fall in the share of wages in GDP. The World Bank estimates that this has dropped from 53% in 1998 to 41% in 2005 (see right-hand chart, above), and data from the industrial sector suggest it fell further in 2006. In the United States, supposedly a beacon of capitalism, wages take a much bigger 56% of national income.

## Not enough labour, too much capital

Many countries have seen a fall in the share of labour income in recent years, but nowhere has the drop been as huge as in China. This partly reflects China's large pool of surplus labour, which has depressed

wages relative to the economy's large productivity gains. But you might expect that if wages are low relative to the value of workers' output, firms will hire more staff, which will moderate the decline in the wage share. Instead, the growth in jobs has been unusually slow. An IMF working paper** blames this on the weak financial sector. Big firms have easy access to credit, but smaller private firms find it hard to raise finance for working capital, which in turn restricts their hiring.

Mr Kuijs stresses a potentially more important reason for the slow pace of job creation: a capital-heavy model of growth. Low interest rates have encouraged capital-intensive production. Investment has been further boosted by the fact that state-owned firms do not pay dividends to the government, allowing them to spend all their profits on capital equipment. The government has also promoted capital-intensive development by favouring manufacturing over the more labour-intensive services sector by holding down the prices of inputs such as land and energy. Its reluctance to allow the yuan to rise faster has also stimulated the production of manufactured goods.

In America, the fall in the share of labour income in recent years has been offset by rising investment income, so total household income has stayed fairly steady as a portion of GDP. In China, however, households' investment income is tiny and has declined to only 2% of GDP in 2005, compared with around 15% in America. Interest rates on bank deposits are very low compared with GDP growth and households' shareholdings are modest. A small proportion of firms are listed, and even those that are have been able to retain most of their profits rather than distribute dividends because shareholder pressure is weak.

The implication of all this is that if China is to shift the mix of growth towards consumption, urging households to spend more of their income will not be enough; the government will also need to increase the share of national income going to households. Mr Kuijs argues that this will require a shift in the composition of growth from capital-intensive manufacturing towards labour-intensive services. He recommends a package of reforms which include: financial liberalisation to lift the cost of capital; scrapping distortions in the tax system which favour manufacturing over services; increasing the prices of industrial inputs such as energy; removing restrictions on the development of labour-intensive services by, for example, tackling monopolies; and a stronger exchange rate to stimulate production in domestic service industries. Increased government spending on health care, education and a social safety net would also encourage households to save less and spend more.

More labour-intensive growth would boost household income and consumption as a share of GDP and so help to reduce the trade surplus. But, perhaps more importantly, by allowing workers to enjoy more of the rewards of rapid growth it could also help to prevent future social unrest, and it would reduce pollution as the economy became less dependent on energy-guzzling industries.

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* "How Will China's Saving-Investment Balance Evolve?" World Bank Policy Research Working Paper 3958, and (with Jianwu He) "Rebalancing China's Economy—Modelling a Policy Package." World Bank China Research Paper No. 7.

** "Explaining China's Low Consumption: The Neglected Role of Household Income" by Jahangir Aziz and Li Cui. IMF Working Paper 07/181.

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Medicine

# Blood simple

Oct 11th 2007
From The Economist print edition

Science Photo Library

**Because they lack an essential component, blood transfusions may be killing some of the people they are intended to save**

IF THERE were any sure bets in medicine, you might think that “blood transfusions save lives” would be one of them. But there aren't. Even though deaths caused in the 1980s by accidental HIV infection mean that donated blood is now screened meticulously to keep it free of infectious agents, there is still a nagging feeling that something is wrong.

In 2004, for instance, Sunil Rao of Duke University Medical Centre, in North Carolina, carried out a study of people suffering from acute coronary syndrome (a specific type of heart attack). One conclusion that could be drawn from his research was that unnecessary blood transfusions might be causing tens of thousands of deaths in America alone. Dr Rao found that patients who had had a transfusion because of a low red blood-cell count had an 8% chance of dying within 30 days. Without a transfusion, only 3% died. Those numbers need to be treated with caution. As Dr Rao points out, the patients who underwent transfusion were, on average, sicker and older than those who did not. Nevertheless, his study is not the only indication of something amiss.

In recent years, research has suggested that transfusion is not necessarily a good thing for patients suffering from serious injuries, for those who have undergone surgery and even for those who are anaemic. And a study carried out earlier this year found that critically ill children whose red blood-cell counts had dropped by half fared no better after a transfusion than those who did not receive one.

As a result of all this, questions are being asked about whether something happens to blood when it is banked that causes it to stop working properly. What that might be has remained a mystery. But it may be one no longer. A group of Dr Rao's colleagues, led by Jonathan Stamler, think the answer is a gas called nitric oxide—or, rather, a lack of it.

## Out of gas

The main reason for giving a patient blood is that it carries oxygen. It carries lots of other things, too, such as glucose. But it is a lack of oxygen that will kill you quickest. However, as Dr Stamler points out, what determines whether transfused blood works as a treatment is not merely how much oxygen it is carrying, but whether that oxygen can reach the tissues that need it. This is where nitric oxide comes in.

Nitric oxide increases the flow of blood to tissues by dilating the arteries that penetrate those tissues. The best known example is the erectile tissue of the penis (Viagra works by sustaining the signal that the gas gives). However, it is not just penile blood vessels that nitric oxide relaxes. When a red blood cell reaches any tissue in need of oxygen it releases nitric oxide in order to dilate the capillaries. Only then can it

deliver its cargo. And that is doubly true of the cells in stored blood since red blood cells become less flexible with age, and thus less able to squish into capillaries. Dr Stamler thus wondered if a lack of nitric oxide was causing the problems associated with transfusions.

What he and his colleagues discovered, and published this week in the *Proceedings of the National Academy of Sciences*, was that the amount of nitric oxide in stored blood does indeed decrease—and does so rapidly. Within a day of storage, blood loses 70% of its nitric oxide. After a few days, up to 90% has been lost.

A second paper in the same journal, by Dr Stamler's colleague Timothy McMahon, confirmed this result (in fact, it showed that the initial drop of around 70% happens within three hours of collection) and showed that it was not caused by the way blood is processed, but merely by the passage of time. Dr McMahon also established that stored blood does indeed lose its ability to dilate blood vessels.

Dr Stamler is in little doubt about the significance of these findings. Furthermore, he warns that putting blood lacking nitric oxide into the body does not merely dilute what gas is already present in the bloodstream. Blood that is poor in nitric oxide will scavenge the gas from other tissues, causing the vessels in those tissues to constrict. If the tissue in question is heart muscle, the result will be a heart attack.

These papers, therefore, make a strong case that a lack of nitric oxide is creating the problems with transfusions—though as Michael Strong, the president of the American Association of Blood Banks, points out, they do not settle the issue once and for all. That would require a proper, randomised clinical trial.

And therein lies the rub. Because blood transfusion is such an old practice (it dates back to 1818) it has never been subjected to modern clinical standards. Nobody is questioning whether car-crash victims, say, should have transfusions after massive blood loss. Without it they would undoubtedly die. But for those not threatened with exsanguination it is far less clear whether a transfusion is a good idea. There are no rules about when to transfuse and who to do it to. These are matters of judgment, and knowledge is typically passed from doctor to doctor.

The good news from this study is that the problem should be easy to correct. If nitric oxide is what is needed, it can be added to banked blood just before transfusion. As part of the project, Dr Stamler tried this with dogs. He found that old blood replenished with nitric oxide is as good as fresh blood at relaxing blood vessels. And that, he thinks, points to a bigger possibility than merely returning blood to normal. Blood boosted with nitric oxide might be used as a therapy for people who have had heart attacks by providing extra oxygen in the crucial minutes after an attack, before the affected heart muscle has died. At that point, blood transfusions would no longer be part of the problem: they would be part of the cure.

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The 2007 Nobel science prizes

# It's a knockout

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From The Economist print edition

**Prizes for genetically disadvantaged mice, computer hard drives and the basis of much of industrial chemistry**

THE award of the Nobel science prizes often brings blinking into the limelight people who have laboured unknown to the wider world. Seldom, though, is there such a compelling human story to go with the intellectual one as that of Mario Capecchi, one of the winners of the medicine prize. His father was an airman who was killed in North Africa during the second world war. His mother was sent to Dachau concentration camp. He survived more than three years as a street kid in Italy before migrating to America after the war was over—and yet he ended up helping to develop one of the most important tools of modern biology, the knockout mouse.

It is not quite a rags-to-riches story. In truth, his family was well connected in a bohemian sort of way, and his mother (the daughter of a painter and an archaeologist) was an American. But it does make great copy for reporters covering an event that has the true characteristics of celebrity. For, like many of those who populate the pages of celebrity magazines, the Nobel prizewinners are most famous for being famous. In most years, the prize-winning work itself makes dull copy.

This year, however, the prize committees of the Karolinska Institute (Sweden's main medical school) and the country's Royal Academy of Science seem to have taken some lessons in public relations. Not only have they picked a researcher with an interesting back-story, but they have also cunningly disguised a deserved but possibly contentious award by bundling it in with something else. On top of that, one of the topics chosen for a prize has an obvious resonance with the public.

The bundling was done in the medicine prize. Dr Capecchi shares this with Oliver Smithies, another immigrant to America (he was born in Britain) and Sir Martin Evans, a Briton who stayed at home. Working independently, these three men provided the parts that, when put together, enable the elimination of one gene at a time from the genetic make-up of a mouse. That is of medical significance because it allows mouse “models” of human genetic diseases to be made—and most diseases have at least some genetic component.

The contribution made by Dr Capecchi and Dr Smithies was to work out how to define and excise particular pieces of DNA from a cell while leaving the rest intact. It is Sir Martin's role, however, that is of most interest, for he discovered what are now known as embryonic stem cells and thus opened a field of endeavour that has had political as well as medical ramifications.

The first practical application of embryonic stem cells was to provide a way for the gene-targeting trick invented by Dr Capecchi and Dr Smithies to be used to produce adult mice lacking particular genes—or knockout mice, as they are now called. You do this by crossbreeding mice that have had some of their cells treated this way when they were embryos, and have thus developed sex cells that lack the knocked-out gene. Certain of the offspring of these crosses will inherit the lack of the gene in question from both parents, and thus it will be entirely absent from them. That was what the Karolinska gave Sir Martin his prize for. But although he discovered the cells in mouse embryos, human embryos have them too, and that is leading to trouble as the desires of researchers butt up against the fears of ethicists.

The physics prize, by contrast, has nothing but feel-good about it. It is for giant magnetoresistance—the basis of modern computer hard-drive memories. The phenomenon itself was discovered, independently, by Albert Fert, a Frenchman, and Peter Grünberg, a German, in 1988. Its significance is that a small magnetic field can induce a large change in the electrical conductivity of an appropriately designed material. (Appropriate design, in this context, means layers of different substances assembled in a way reminiscent of molecular puff pastry.) That means individual bits of data can be stored as magnetic domains on a spinning disk, and the changes in conductivity they induce in a reading head held over the disk can be turned into signals that a computer can process. The result has been that the amount of data computers can store has grown even faster than their ability to process it. The discovery made by Dr Fert

and Dr Grünberg has thus out-Moored Moore's law.

Only the chemistry prize has preserved the traditional aura of obscurity. It goes to Gerhard Ertl, another German, and is for his studies of the role of surfaces in catalysing chemical reactions. Since an awful lot of industrial chemistry is catalysed this way, and the chemical industry lies, one way or another, at the base of most manufacturing, there is a good argument that this is the most important prize of the lot. But glamorous? Sadly not.

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Space dust

# Blowing in the wind

Oct 11th 2007
From The Economist print edition

**The building blocks of planets and people come from black holes**

WHEN the writer of Genesis said man was made of dust, he spoke true. And not just man. The whole Earth was made from dust particles in orbit around the primitive sun, as were all the other solid objects in the solar system. But how did the dust itself come into existence?

That is a puzzle. Modern space dust blows off stars that formed about 10 billion years ago. These stars would have been too young to have shed much of the stuff by the time that the solar system formed, 4.5 billion years ago. The universe's primordial dust must therefore have come from somewhere else—and a team of researchers led by Ciska Markwick-Kemper of the University of Manchester think they know where. The answer is from black holes.

The black holes in question are at the centres of quasars. These formed shortly after the universe began and they came to the attention of earthling astronomers because quasars are powerful radio sources. The radio waves (and lots of other radiation) are the result of matter being drawn into the black hole and releasing energy as it falls. But not all this matter is swallowed. Some is baked, transformed and spat out again. It was this transformation that interested Dr Markwick-Kemper.

Suspecting that it might be the source of primordial dust, she recruited a space telescope called *Spitzer* to look at a quasar called PG 2112+059 in more detail. *Spitzer* is tuned to pick up infra-red radiation—the sort of radiation emitted by dust that has been heated. And the details of the spectrum of infra-red radiation given off by a speck of dust will betray its composition.

Dr Markwick-Kemper and her colleagues report their findings in a forthcoming edition of *Astrophysical Journal Letters*. The dust around PG 2112+059 contains large quantities of rock-forming minerals, including crystalline forms of silica (essentially, small sand grains), a form of aluminium oxide called corundum (better known on Earth as the principal ingredient of rubies and sapphires) and a form of magnesium oxide called periclase (which is present in marble).

These minerals must have been produced by the quasar, Dr Markwick-Kemper argues, because their crystal structures would not survive long in the hostile conditions of outer space. Cosmic rays would zap them into an amorphous, glass-like state. Moreover, corundum and periclase have not been detected in space dust before. Their association with the quasar is therefore strong evidence that this is the object that created them. A human being may still be a handful of dust. But that dust has had an exciting history.

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Human evolution

# Hidden charms

Oct 11th 2007
From The Economist print edition

**Lap dancers earn more when they are most fertile**

“BECAUSE academics may be unfamiliar with the gentlemen's club sub-culture, some background may be helpful to understand why this is an ideal setting for understanding real-world attractiveness effects of human female oestrus.”

No doubt readers of *The Economist* are equally unfamiliar with this sub-culture, but for Geoffrey Miller of the University of New Mexico, who penned the words above in a paper just published in *Evolution and Human Behaviour*, such clubs are a field site as revealing of human biology as the Serengeti is of the biology of lions and antelopes. Dr Miller is an evolutionary psychologist—and the author of the theory that the large brains of humans evolved to attract the opposite sex in much the same way that a peacock's tail does. His latest foray, into the flesh-pots of Albuquerque, is intended to investigate an orthodoxy of human mating theory. This is that in people, oestrus—the outward signs of ovulation—has been lost, so that men cannot tell when women are fertile.

This theory is based on the idea that in evolutionary terms it benefits women to disguise when they are fertile so that their menfolk will stick around all the time. Otherwise, the theory goes, a man might go hunting for alternative mating opportunities at moments when he knew that his partner was infertile and thus that her infidelity could not result in children.

However, this should result in an evolutionary arms race between the sexes, as men evolve ever-heightened sensitivity to signs of female fertility. Dr Miller thought lap-dancing clubs a good place to study this arms race, because male detection of female fertility cues would probably translate into an easily quantifiable signal, namely dollars earned. He therefore recruited some of the girls into his experiment, with a view to comparing the earnings of those on the Pill (whose fertility was thus suppressed) with those not on the Pill.

The results support the idea that if evolution has favoured concealed ovulation in women, it has also favoured ovulation-detection in men. The average earnings per shift of women who were ovulating was $335. During menstruation (when they were infertile) that dropped to $185—about what women on the Pill made throughout the month. The lessons are clear. A woman is sexier when she is most fertile. And if she wishes to earn a good living as a dancer, she should stay off the Pill.

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# Correction: kidney transplants

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From The Economist print edition

In last week's article about kidney transplants, "Subprime cuts", we said that the researchers involved were comparing elderly, possibly less-effective kidneys with those from young, healthy donors, and finding broad equivalence. This was a mistake. The comparison was between the sort of less-effective kidneys that most surgeons would, nevertheless, accept for use and those that would usually be discarded. A corrected version of the story has been posted on our website. Sorry for the error.

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Israel's settlers

# One reason for the absence of peace

Oct 11th 2007
From The Economist print edition

PA

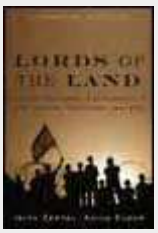
**How religious ideologues bent the Israeli state to their purpose**

Get article background

TWO months ago Heftsiba, an Israeli construction firm, went bust. One reason for its woes was a court order last year to freeze work on a big housing project on an Israeli settlement just inside the West Bank. The land, it turned out, had in effect been stolen from private owners in a neighbouring Palestinian village, Bilin. Yet after the bankruptcy, the same court ruled that the apartment blocks—and their prospective buyers, who had broken in and occupied them at the news of Heftsiba's impending collapse—could stay.

And thus it has always been. Never mind that Israel has flouted international law by settling its citizens in occupied foreign territory; what is remarkable is how consistently the settlers have thwarted Israel's own laws, in pursuit of what to them are biblical lands inhabited by Palestinian interlopers. The Bilin case was just a variation on a tried and tested method: seize land illegally, establish hard-to-reverse "facts on the ground" and then legalise the claim retroactively through the courts or the government. The result is a West Bank so riddled with settlement that it is hard to see how enough can be removed for a viable Palestinian state to emerge.

Lords of the Land: The War for Israel's Settlements in the Occupied Territories, 1967-2007
By Idith Zertal and Akiva Eldar




*Nation Books; 560 pages; $29.95 and £17.99*

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In this thorough and eye-opening book, Idith Zertal, a historian, and Akiva Eldar, a journalist, explain how a few tens of thousands of people bent the state to their purpose. Settlements were not on the official agenda after Israel's surprise capture of the Palestinian territories in 1967. But pressure from ardent young religious Zionists found a secular echo among military men, who came to see security benefits to having Israelis live in the West Bank.

Such confluences of interests were what drove the settlements' spread. Only rarely, when a new outpost was too blatantly illegal and too plainly of no strategic use, did the apparatus of the state contrive to force a retreat. With politicians constantly interfering on behalf of the settlers, the army's effectiveness against law-breakers soon bled away.

Over the years, official attitudes evolved. The Labour governments that ruled until 1977 turned a blind eye to expropriations of land for "military" use that then became civilian. The more right-wing coalitions that followed embraced settlements openly, devising ingenious legal veneers. Since the 1993 and 1995

Oslo accords, Israel has avoided building “new” settlements via administrative tricks that expanded existing ones, though it has also ignored innumerable violations. Whatever the government in power, the settlers' genius was in exploiting its weaknesses and co-opting sympathetic officials.

The authors' anger falls mainly on the religious pioneers and their secular allies, especially Ariel Sharon, whose removal of settlements from Gaza in 2005 was, they argue, no more than a way to consolidate the hold on the West Bank. But nobody escapes blame. Shimon Peres, Israel's elder statesman, emerges as one of the settlers' most useful early helpmates. Yasser Arafat, the Palestinians' former leader, and Mahmoud Abbas, their current president, were still exiles in Tunis when they negotiated the first Oslo accord and had no idea how settlements had permeated the West Bank. To the horror of their local advisers, they agreed to no more than a token constraint on settlement growth. Yitzhak Rabin, the prime minister who signed Oslo and whom the authors plainly admire for hating settlers almost as much as they do, gets a lashing for presiding during one of their fastest rates of growth and being in a “state of denial” about their influence.

That denial had much to do with an inability to grasp how different religious Zionism, with its messianic belief that Israel's creation hastened Redemption, was to Rabin's traditional, secular-nationalist sort. For the true believers, constant war with the Arabs was essential to avoid “assimilation [of Jews] into the Semitic expanse”. The costs of this ideology to Israel, let alone the Palestinians, have been enormous. Rabin's assassin in 1995 was inspired by a settler, Baruch Goldstein, who killed 29 Palestinians in a Hebron mosque in 1994. Goldstein's rampage, according to a former adviser to the head of Israel's security service, also prompted Hamas to begin the tactic of suicide-bombings against Israeli civilians.

And yet, the authors conclude, traditional Zionism must take a share in the blame. It was the aggressively secular early state of Israel that repressed religious Zionism in the first place, setting the stage for its violent revival, and for the dichotomy in Israel's nature that it has yet to resolve.

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Internet grassroots politics

# The day of the netroots

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IN THE summer of 2005, a seat on the Supreme Court fell vacant. George Bush was obviously going to nominate a conservative to fill it. MoveOn.org, an online protest group, was determined to block whomever he named. Since MoveOn was emerging as a thunderous voice in Democratic politics, Matt Bai, a *New York Times Magazine* reporter, went to meet some of its 3m members. He was taken to a house party in Virginia. More than 1,000 such parties were being held that night in America, all organised by volunteers connected via MoveOn's website.

Mr Bai asked his host, Chuck, a prosperous ad man, what motivated him. Was it the Iraq war? Or the fear that the Republicans might ban abortion? No, said Chuck, it was because he couldn't stand his Bush-supporting neighbours. “The rage just builds up inside me...I can't even go to parties around here anymore. I can't deal with it.” He had to do something. He considered peeing in a Republican neighbour's pool. Instead, he hosted a MoveOn party.

Mr Bai has stumbled on how the internet has transformed grassroots politics. It has allowed new groups of angry people—the most reliable footsoldiers of any political campaign—to find and talk to each other. The religious right has always been able to rally its troops through church pulpits and mailing lists. Now the anti-Bush left is doing something similar online. And most of the “netroots” (internet grassroots activists) are not, as you might imagine, tech-savvy 20-somethings. They tend to be like Chuck: middle-aged suburbanites alienated from their neighbours. “If college kids wanted to commiserate with someone over the fear and misery of life under Bush, all they had to do was walk across the hall,” notes Mr Bai. “For affluent boomers, there was MoveOn.”

The Argument: Billionaires, Bloggers, and the Battle to Remake Democratic Politics
By Matt Bai

*The Penguin Press; 336 pages; $25.95 and £12.85*

Buy it at
Amazon.com
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His book is engaging and painstakingly reported. Mr Bai sets out to uncover the forces shaping the Democratic Party behind the scenes, both within and outside the party hierarchy. He spends time with howling bloggers, billionaire donors and the politicians who try to accommodate their impossible demands. He is instinctively sympathetic to anyone on the anti-Bush team, but he can't help noticing what ghastly people some of them are.

He meets Hollywood luminaries who wail about being oppressed and disenfranchised, moneymen who think that money is everything and voters are morons, and bloggers who think that profanity is an adequate substitute for thought. He is clearly shocked to discover that Markos Moulitsas Zuniga, a blogger so influential that party leaders prostrate themselves before him, knows practically nothing about policy or anything that occurred before 1998. He also treats his fans with disdain and coldly urges the Democratic Party to do the wrong thing if it might be politically advantageous.

By far the nicest and most reasonable folk in Mr Bai's account are the politicians themselves. He describes how Barack Obama was hounded for advocating politeness towards people with whom one disagrees. And he watches Mark Warner, a moderate and popular ex-governor of Virginia who is hoping to run for the Senate, try but fail to woo the netroots. At a bloggers' convention, Mr Warner denounced the Iraq war, a stance he thought progressive bloggers would applaud. Instead, they harangued him—because he, like Mr Bush, had suggested that Iran was a threat. “To the bloggers”, says Mr Bai, “if Bush said the sky was blue, then it was green.”

All this leaves Mr Bai somewhat dispirited. The Democrats' stunning capture of Congress last year left nearly all the characters in his book claiming credit. But there was not much evidence that any of them deserved it. People had voted to punish the president and his party, not to endorse any big idea of the Democrats'—because, he concludes, they have not got one.

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Financial mergers

# Class warfare

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From The Economist print edition

Get article background

THE merger in 1997 of Morgan Stanley and Dean Witter Discover created a banking-to-broking giant that was, for much of the following eight years, as dysfunctional as it was sprawling. Who was responsible for that? Patricia Beard, a journalist, is in no doubt about the villain of the piece: Philip Purcell, the former McKinsey consultant who took Dean Witter into the marriage and ran the combined group. But her book, though a rollicking good read, fails to give him a fair hearing.

The fight referred to in its title is one of the most extraordinary chapters of Wall Street's past decade. Mr Purcell's nemesis was a gaggle of Morgan Stanley alumni, dubbed the Group of Eight, who feared that he was single-handedly eroding the integrity that had made the firm great. Working at first in the shadows, they took their campaign public when the Purcell camp refused to talk. Against all expectations, they wore the other side down, using the media—to whom Mr Purcell had never bothered to endear himself—to great effect. Thanks to their efforts, he was eventually forced out in June 2005, though his pay-off of $113.7m was one of Wall Street's most egregious golden parachutes.

Blue Blood Mutiny: The Fight for the Soul of Morgan Stanley
By Patricia Beard

*William Morrow; 420 pages; $26.95*

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The merger had been celebrated at first as the birth of a financial one-stop-shop straddling wholesale and retail markets. But the two firms' dissimilarities soon caused problems. The investment bank's blue-bloods looked down on Dean Witter's army of brokers, while the brokers thought their new colleagues arrogant and overpaid. Before long, Midwestern defensiveness was facing off against eastern-establishment condescension. The contrast is a bit overdone: John Mack, the main man from the Morgan Stanley side, hailed from North Carolina and was no Brahmin. But Mr Purcell was no lover of New York society, flying back to Chicago each Friday.

Personalities clashed as well as cultures. Mr Purcell initially got on well with Mr Mack. But, like their firms, the two men were quite different. Mr Mack oozed charisma and loved nothing more than hanging out with his traders or schmoozing clients. Mr Purcell, though sharp, was stiff, remote and increasingly paranoid. As the battle for control intensified, he became convinced that his critics were interested only in destroying him.

Their ire grew when Mr Mack left, apparently livid that Mr Purcell had failed to honour a handshake agreement to step aside at an agreed date. It did not help that Mr Purcell seemed ever more autocratic. He stuffed the board with supporters and began to view loyalty to himself as synonymous with loyalty to the firm. Worse, from the old Morganites' point of view, he was discourteous.

What the swashbucklers found most unforgivable was his aversion to risk. Coming from consulting and retail financial services, he had little stomach for the kind of gambles that investment bankers thrive on and occasionally regret. Dealmakers came to suspect Mr Purcell of an unMack-like spinelessness.

This might have been overlooked if the bank had been powering ahead. But its share price was lagging behind those of its peers. The final straw was the Monday Massacre, in which several well-regarded senior executives were booted out. Dozens of defections followed. With morale slipping by the day, institutional investors leaned on Mr Purcell's pliant board. It reluctantly showed him the door, leaving it open for the return of Mr Mack, who was mobbed by jubilant investment bankers on his first day back as chief executive.

Nobody doubts that Mr Mack is the better investment banker or that he is a more inspiring leader of

troops. But, although Mr Purcell made plenty of mistakes, and played his hand badly when challenged, Ms Beard paints a lopsided portrait of him, in part because she clearly had much better access to the other side in researching it.

Tribalism dies hard on Wall Street, and Morgan Stanley's rainmakers treated Mr Purcell with suspicion from the start. Yet under him, the firm was consistently profitable. And even though others did better, its share price nearly tripled. Interestingly, though the tone is different, the strategy he put in place remains largely intact. On returning, Mr Mack stopped short of implementing some of the Group of Eight's demands. True, he ramped up risk-taking, pushing deeper into leveraged loans and mortgages. But that change does not look so smart in light of the credit crunch. Perhaps Mr Purcell's legacy, though hardly stunning, is not quite as bad as it seemed when the Axe Man was axed.

Blue Blood Mutiny: The Fight for the Soul of Morgan Stanley.
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Ballet

# An inheritance beyond price

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From The Economist print edition

**What Carlos Acosta may have gained from Rudolf Nureyev**

THERE is a telling moment in Carlos Acosta's autobiography “No Way Home”—more telling, perhaps, than the ballet star himself seems to know. In 1991, when he was 18 and the winner of both the Lausanne and Paris international ballet competitions, he travelled to the Italian fishing village of Positano to collect yet another prize. Off the coast is an island owned at that time by Rudolf Nureyev. When a fellow dancer pointed it out, Acosta was blank: who was Nureyev? Angry at his ignorance, his friend proclaimed that Nureyev was a genius and the reason they were both there. “What bullshit!”, Mr Acosta thinks, “I'm here thanks to my father, to Chery [his teacher] and my legs.”

In a sense he's right. Mr Acosta's Cuban family was dirt poor. His black father (beautifully portrayed) was a truck driver; his white mother an invalid. The house in Havana had no running water and everyone shared beds. A loved aunt committed suicide when he was seven. When Cuba lifted its border controls, the close-knit family split apart, some of its white half going to America. Carlos was left behind, breakdancing in backstreet gangs and dreaming of football.

Dramatically, his father intervened. In his pre-Castro youth, he had glimpsed enchantment—twirling ballerinas on the silver screen—but the all-whites cinema had kicked him out. Now his son would show them. He would go to ballet school. The bewildered boy truanted, stole and got expelled. But in spite of all this, his talent and his legs propelled him past every obstacle. What had Nureyev to do with it?

One of the remarkable things about Julie Kavanagh's impressive biography of Nureyev is that an answer emerges from it. Remarkable, because she has so much else to tell. It is an even more amazing tale: a poor provincial boy astonishes everyone with his dancing, joins the Kirov ballet company, goes on tour with them, thrills Paris, is fingered by the KGB, defects spectacularly and, at 23, takes the West by storm partnering its greatest ballerina, Margot Fonteyn, aged 42. As Ms Kavanagh shows, Nureyev hit every contemporary button: communist repression v Western freedom, swinging London, the cult of youth, celebrity, fashion, sex (straight and gay) and finally, in a horrible coda, AIDS. The period is virtually stamped in his wild boy, androgynous, Tatar image.

No Way Home: A Cuban Dancer's Story
By Carlos Acosta

*HarperPress; 319 pages; £20*

Buy it at
Amazon.co.uk

Rudolf Nureyev: The Life
By Julie Kavanagh

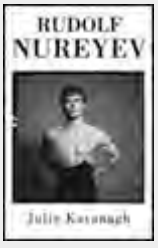


*Fig Tree; 787 pages; $37.50 and £25*

Buy it at
Amazon.com
Amazon.co.uk

There are a lot of aeroplanes, restaurants and quarrels in this book, but the saving thread, which Ms Kavanagh never really loses, is Nureyev's artistic seriousness. Everyone remarked on it, the “purity” of his dedication. Nothing offstage was quite real to him: “We only lived when we danced,” he said of himself and Fonteyn. He was voracious for whatever fed his art: Dostoyevsky, Byron, painting (“like food” he said), every ballet tradition, the Danish elegance of Eric Bruhn (a dancer who became his lover), the American dash of George Balanchine's choreography. Even Martha Graham's anti-balletic modern dance interested him and he seized any chance to cross over.

Ms Kavanagh, an ex-dancer, can well describe the technique as well as the art of ballet—though it helps if you know your *retiré* from your *relevé*. Already, before he defected, Nureyev had begun to push boundaries, to shift the ground under the heavy, macho style of Russian male dancers. Like them he jumped and spun, but he also borrowed from the ballerinas, elongating and lifting the lines, rising higher on his toes and giving fluidity to arms and shoulders. It was a revelation. As Violette Verdy, a French dancer, put it: “He was using his body poetically—as an instrument of poetic exploration.”

So what of Carlos Acosta? He's a stunning dancer, and can do bravura even beyond Nureyev. Yet, after reading Ms Kavanagh's book, one recognises the landscape, the whole vocabulary within which he works. His personality (warm and funny in his book) is his own; but the lengthened lines, the split extensions, the arched feet, the graceful arms and back, the whole magic package of strength and grace is Nureyev's legacy.

No Way Home: A Cuban Dancer's Story.
By Carlos Acosta.
*HarperPress; 319 pages; £20*

Rudolf Nureyev: The Life.
By Julie Kavanagh.
*Fig Tree; 787 pages; $37.50*
*Fig Tree; £25*

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Photosynthesis

# The shedding of light

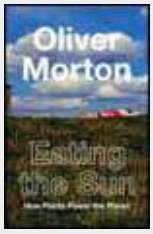
Oct 11th 2007
From The Economist print edition

PHOTOSYNTHESIS is the basis of life on Earth. Thermodynamics is the order and disorder in the universe. Put them together and you have the makings of a book that may re-order the way you think about the world. And that is what Oliver Morton, news editor at *Nature* (and who once worked for this paper), has done.

Mr Morton's thesis is that modern biology has become so focused on the movement of information, in the form of genes, that it has neglected the processes needed to move that information around: in essence, thermodynamics. People talk glibly of "using up" energy when in fact they are doing no such thing. What is actually used up is order. An energy flow drives the process, but it is disorder (or "entropy", to use the jargon) that changes, by increasing.

A highly ordered system such as a living thing thus needs an abundant supply of negative entropy (or unentropy, or call it what you will) to maintain its internal order. That negative entropy comes from the sun and is captured by photosynthesis, which uses light to split water molecules and combines the resulting hydrogen with carbon dioxide to form sugars. The sugars are a store of negative entropy that can be used elsewhere. The waste product, conveniently for the animals of Earth, is oxygen.

Eating the Sun: How Plants Power the Planet
By Oliver Morton




*HarperCollins; 457 pages; $26.95*
*Fourth Estate; £25*

Buy it at
Amazon.com
Amazon.co.uk

The book, then, is in part a refrain in praise of photosynthesis, the Earth's energy and order currency-exchange market. It is also an entertaining history of how the subject arrived where it is today—and an illuminating insight for the non-scientist into how the magisterial pronouncements of science are every bit as much the result of sausage-making as Bismarck's description of the process of legislation.

The text is peppered with vignettes and asides that highlight science's faltering march forward on the backs of researchers, who are by turns quirky and visionary. The process of discovery is not chronological but is forever folding back on itself, revisiting half-solved problems. Mr Morton is careful to point out where progress has been impeded by hubris or tucked away in academic literature.

There is also, of course, the inevitable warning. Having perfected the energy-into-order recipe over billions of years, photosynthesis has left a great deal of waste in the Earth, as well as contributing oxygen to the atmosphere. That buried waste—coal, oil and natural gas—is what powers the industrial revolution still sweeping the Earth.

By reuniting the two waste products of photosynthesis—oxygen in the air and carbon in the ground—this revolution has fuelled a rise in atmospheric carbon dioxide three times higher than any previous rise that can be measured. The system—the interaction between life and its surroundings: the atmosphere, the oceans and the upper levels of the Earth's crust—has been pushed out of equilibrium.

Mr Morton argues that the way in which industrialised humanity is interfering with the homeostatic process can be undone—not by way of a single, magic bullet, but by pursuit of a number of ultimately achievable goals. The damage is done but it is, he says, reparable. Humanity had better hope he is right.

Eating the Sun: How Plants Power the Planet.
By Oliver Morton.
*HarperCollins; 457 pages; $26.95*
*Fourth Estate; £25*

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New film

# An atrocity unseen

Oct 11th 2007
From The Economist print edition

**A cerebral rendition of a particularly bad day in Iraq**

**An interpretation of gang rapists**

“REDACTED”, a film directed by Brian De Palma, is a faux documentary inspired by the story of an atrocity committed last year in a town south of Baghdad. Abeer Qasim Hamza, aged 14, was raped and murdered by five American soldiers whose unit manned a checkpoint near where she lived with her family, who were also killed. All too familiar material for Mr De Palma who, in a critically acclaimed 1989 film “Casualties of War”, put the audience through a harrowingly realistic portrayal of an atrocity committed 20 years earlier by American soldiers in Vietnam.

In “Casualties of War” Mr De Palma thought that gory voyeurism might awaken American consciences about a past event. His hope now is that the images in his new film will help to end a war that still continues. The atrocity itself is not shown this time: viewers see only the events leading up to it, as filmed by a Hispanic army recruit who expects that his video war diary will earn him admission to a prestigious film school. Yet when the crime is discovered, the video record is never mentioned.

So much, perhaps, for the power of pictures. But “Redacted” is full of images, or simulations of images, recorded by the swarms of digital witnesses that brood over the Iraqi war. They include video diaries, webcam letters from home, an insurgent website, a video of some Iraqi teens planting a bomb, images from a surveillance camera, Arab journalists interviewing outraged Iraqis, a French documentary about the nerve-wracking boredom of life at a checkpoint. Some of these images seem real enough, others feel like parodies. All show people who are visibly acting for the camera.

Making matters more cerebral, Mr De Palma allows his film to suggest depths that are left unstated and half-shown: the dim-witted soldier who organises the rape blames the victim for the death of a fellow soldier that he may have caused himself. Then, at the end, we are slammed with a montage of photos of Iraqi dead, unquestionably real but with their faces “redacted” with black ink.

It is a Chinese box of a movie. Will it have the power to shock and disturb audiences when it is released next month? Perhaps it will. In its subtle way it manages to slip in a few ancient truths about the evils of war.

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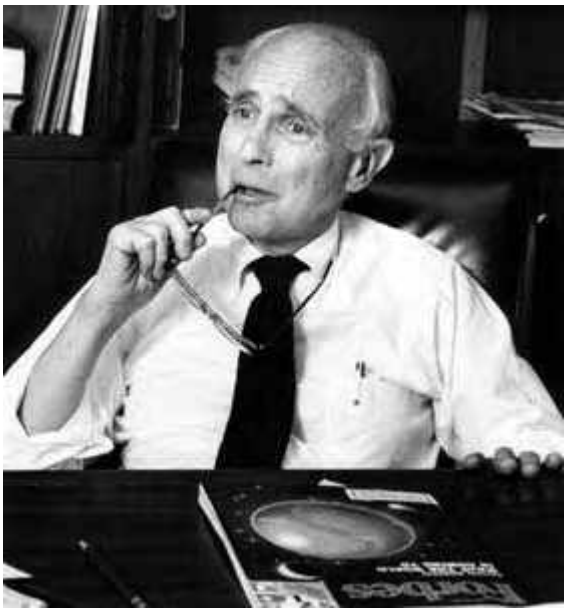
# Jim Michaels

Oct 11th 2007
From The Economist print edition

**Jim Michaels, transformer of business journalism, died on October 2nd, aged 86**

Forbes



HE WAS used to ordure, because at school (Culver Military Academy, Indiana), they had made him shovel it, “wet manure, which is not like dried manure. It's very heavy.” He knew about sludge, because as an ambulance-driver in Burma in the war he had spent long hours in it. So when Jim Michaels came to *Forbes* in 1954, charged with shaking things up, it was second nature to take the hacks' copy and wring it through his typewriter, digging out the buried leads and the smothered conclusions, cutting the waffle, and transforming “oatmeal” into lean, tight prose. He did this for 38 years of editing the magazine, from 1961 to 1999. Circulation rose sixfold while he was there.

Tiny though he was, he was terrifying. Business journalism, for him, was a tough trade. When writers joined they were given a tape recorder for phone calls, to give them crucial backing when they were hauled into court. They were hustled to get better stories than the competition, different ones, and sooner; covers were scrapped and copies pulped if a piece had appeared elsewhere. “No guts, no story”, ran a *Forbes* ad in his time. His journalists had to be brave, and one way to show their pluck was to survive working with Jim.

“Curmudgeon” was too soft a word for him. When editing, he was a man of shrill explosions and unmasked savagery. “EITHER FIX THIS OR DUMP IT,” ran his capitals, rampaging through the piece. “THAT ALL VERY TOUCHING BUT WHAT DOES IT MEAN”. “CAN WQE SPEAK ENGLISH HOWARD AND STOP THIS STTINKING JARHGON!!!!!!!!.” Shorter was always better; he could cut 15%, he said, from any piece, and was rumoured to be able to get the Lord's Prayer down to six choice words. A reporter once wrote a euphoric story about Nepal, ending with the plaintive line: “I don't know why they would ever want to leave such a beautiful spot.” “Ya dont. did you ever go hungry or jobless????” came the furiously typed reply.

The journalists who came, trembling, through his boot camp—many of them moving on to high perches at the *Wall Street Journal*, *Fortune*, the *New York Times* and even *The Economist*—clipped his comments and kept them. Some took his edits home, unpicking them at leisure, as they licked their wounds, to try to see exactly how their copy had been so improved. His edits, seen by everyone on the open filing system, were surreptitiously collected in the “Abuse File”. Some entries became famous outside the magazine, such as his wild reaction to “upscale”: “IF I SEE THIS WORD AGAIN ILL UPTHROW”. Copies are still circulating.

Mr Michaels was not a tyrant by nature. He had a streak of tenderness in him. A book of favourite poems was often in his pocket, and he once told a journalist, reporting for work the day after his first child was born, to “Go home and be a father.” (The same journalist, caught leaving the building with a dozen copies of the magazine, was told, with a smile, that he had excellent taste in reading.) He skewered stories, and people, because he wanted the copy in *Forbes* to be provocative, sceptical and dramatic. Each story was pushed to the edge, and the fact-checkers, legions of them, were made to justify the claims or get them taken out. If they let an error through (whisper had it), they were fired.

## “Bah! Overvalued!”

Mr Michaels loved, and revelled in, American capitalism. (“*Forbes*: Capitalist tool” was an ideal slogan for him, hitting the lefties with their own language.) But he did not like corporate managers as a breed. Business iconoclasts he admired, but he hated sycophancy (“Why not just send them a nice lacy valentine and forget the prose?”), and once considered a cover story on phonies who had made it to the top. He refused to pay court to businessmen by going to their dinners or holidaying in the Hamptons. *Forbes*'s founder, Malcolm Forbes, could do that. Mr Michaels—sharp-eyed, endlessly curious, unbuyable—would hold them to account.

Arriving at *Forbes*, he found a second-rate investment magazine running flattery about corporations. Mr Michaels proposed to help small investors in a different way, by telling them, in unvarnished prose, which stock picks were good and which were not. (He did the same, in retirement, on “*Forbes* on Fox”, where his “Bah! Overvalued!” kept TV audiences alert.) It was he who first thought of rating mutual funds. He was less keen on *Forbes*'s annual Rich List of the 400 wealthiest Americans, partly because it was first tried out in his rival *Fortune*, but mostly because he thought it was a stupid thing for *Forbes* to do. He changed his mind as it improved.

Where he never wavered was over the importance of straight, short and timely reporting. He had learned that lesson young. On his first posting as a newsman, with United Press in India in 1948, he had managed a world scoop by witnessing the death of Mahatma Gandhi. It was a story that caused him agony to write. Gandhi was someone he revered. With not a word spare, and without sentimentality, he described the emaciated figure crumpling under the assassin's bullets, the last gesture of forgiveness and, the next day, the burning of the body on the banks of the Jumna. After that, perhaps, the pretensions of corporate America could never have had much hold on him.

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# Overview

Oct 11th 2007
From The Economist print edition

**American employers**, excluding farms, added 110,000 workers to their payrolls in September. The figure for August was revised from a decline of 4,000 to an increase of 89,000. Jobs were created in health care, catering, and professional and technical services. The construction industry continued to shed workers. The unemployment rate inched up to 4.7% in September.

The **Federal Reserve's** rate-setting committee voted unanimously to cut interest rates by half a percentage point on September 18th, the minutes of the meeting revealed. It decided not to give an explicit assessment of the balance of risks between inflation and growth. The committee did not want to give the “mistaken impression” that it was “more certain about the economic outlook than was in fact the case”.

Industrial output in the largest **euro area** economies was buoyant in August. In Germany it rose by 1.7%; in France by 0.3% and in Italy by 1.3%.

Industrial production in **Britain** rose by 0.1% in August, leaving it 0.7% higher than a year earlier. The trade deficit in goods and services narrowed to £4.1 billion in August from £4.6 billion in July. The Treasury revised down its forecast for GDP growth in 2008 to 2-2.5% from 2.5-3%.

GDP in **Singapore** rose by 9.4% in the year to the third quarter.

As expected, **Japan's** central bank left its benchmark interest rate at 0.5%.

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# Output, prices and jobs

Oct 11th 2007
From The Economist print edition

## Output, prices and jobs

% change on year ago

| | Gross domestic product | | | | Industrial production | Consumer prices | | | Unemployment |
|---|---|---|---|---|---|---|---|---|---|
| | latest | qtr* | 2007† | 2008† | latest | latest | year ago | 2007† | rate‡, % |
| United States | +1.9 Q2 | +3.8 | +2.0 | +2.2 | +1.7 Aug | +2.0 Aug | +3.8 | +2.8 | 4.7 Sep |
| Japan | +1.6 Q2 | −1.2 | +2.0 | +1.9 | +4.3 Aug | −0.2 Aug | +0.9 | nil | 3.8 Aug |
| China | +11.5 Q2 | na | +10.5 | +9.6 | +17.5 Aug | +6.5 Aug | +1.3 | +3.0 | 9.5 2006 |
| Britain | +3.1 Q2 | +3.3 | +2.9 | +2.1 | +0.7 Aug | +1.8 Aug** | +2.5 | +2.3 | 5.4 Jul†† |
| Canada | +2.5 Q2 | +3.6 | +2.5 | +2.5 | −0.5 Jul | +1.7 Aug | +2.1 | +2.2 | 5.9 Sep |
| Euro area | +2.5 Q2 | +1.4 | +2.6 | +2.1 | +3.7 Jul | +2.1 Sep | +1.7 | +2.0 | 6.9 Aug |
| Austria | +3.5 Q2 | +3.5 | +3.2 | +2.6 | +5.3 Jul | +1.7 Aug | +1.8 | +1.8 | 4.2 Sep |
| Belgium | +2.9 Q2 | +2.5 | +2.6 | +2.1 | +3.3 Jul | +1.5 Sep | +1.2 | +1.7 | 11.9 Aug‡‡ |
| France | +1.3 Q2 | +1.2 | +1.8 | +2.0 | +2.6 Aug | +1.2 Aug | +1.9 | +1.4 | 8.0 Jul |
| Germany | +2.5 Q2 | +1.0 | +2.7 | +2.2 | +5.2 Aug | +2.5 Sep | +1.0 | +2.0 | 8.8 Sep |
| Greece | +4.1 Q2 | na | +3.8 | +3.2 | −0.4 Aug | +2.9 Sep | +2.9 | +2.6 | 8.2 Jun |
| Italy | +1.8 Q2 | +0.5 | +1.8 | +1.5 | +3.0 Aug | +1.7 Sep | +2.1 | +1.9 | 6.0 Q2 |
| Netherlands | +2.6 Q2 | +1.2 | +2.5 | +2.2 | +2.2 Aug | +1.3 Sep | +1.3 | +1.6 | 4.5 Aug†† |
| Spain | +4.0 Q2 | +3.8 | +3.7 | +2.7 | +0.6 Aug | +2.7 Sep | +2.9 | +2.7 | 8.0 Aug |
| Czech Republic | +6.0 Q2 | +5.7 | +5.6 | +3.0 | +11.5 Jul | +2.8 Sep | +2.7 | +2.6 | 6.2 Sep |
| Denmark | +0.6 Q2 | −1.6 | +1.7 | +1.8 | −1.4 Aug | +1.2 Sep | +1.5 | +1.7 | 3.3 Aug |
| Hungary | +1.2 Q2 | +0.2 | +2.1 | +3.0 | +12.2 Aug | +6.4 Sep | +5.9 | +7.8 | 7.2 Aug†† |
| Norway | +3.9 Q2 | +3.5 | +3.1 | +2.6 | −0.6 Aug | −0.3 Oct | +2.6 | +0.8 | 2.5 Jul†† |
| Poland | +6.7 Q2 | na | +6.5 | +5.1 | +9.0 Aug | +1.5 Aug | +1.6 | +2.3 | 12.0 Aug‡‡ |
| Russia | +7.8 Q2 | na | +6.7 | +6.2 | +3.8 Aug | +9.5 Sep | +9.5 | +7.8 | 5.7 Aug‡‡ |
| Sweden | +3.5 Q2 | +3.7 | +3.4 | +3.0 | +2.4 Aug | +2.2 Sep | +1.5 | +1.8 | 4.8 Aug‡‡ |
| Switzerland | +2.8 Q2 | +3.0 | +2.6 | +2.1 | +9.8 Q2 | +0.7 Sep | +0.8 | +0.7 | 2.5 Sep‡‡ |
| Turkey | +3.9 Q2 | na | +5.6 | +5.3 | +6.1 Aug | +7.1 Sep | +10.6 | +8.7 | 8.9 Q2‡‡ |
| Australia | +4.3 Q2 | +3.8 | +4.1 | +3.5 | +4.6 Q2 | +2.1 Q2 | +4.0 | +2.4 | 4.2 Sep |
| Hong Kong | +6.9 Q2 | +8.2 | +6.2 | +5.2 | −2.3 Q2 | +1.6 Aug | +2.5 | +1.9 | 4.2 Aug†† |
| India | +9.3 Q2 | na | +8.0 | +7.9 | +7.1 Jul | +7.3 Aug | +6.3 | +5.9 | 7.6 2006 |
| Indonesia | +6.3 Q2 | na | +6.3 | +6.4 | +3.9 Jul | +7.0 Sep | +14.5 | +6.1 | 9.8 Feb |
| Malaysia | +5.7 Q2 | na | +6.0 | +5.8 | +0.9 Aug | +1.9 Aug | +3.3 | +2.1 | 3.4 Q2 |
| Pakistan | +7.0 2007§§ | nil | +6.4 | +5.9 | +6.3 Jul | +6.5 Aug | +8.9 | +6.7 | 6.2 2006†† |
| Singapore | +9.4 Q3 | +6.4 | +7.0 | +5.1 | +13.8 Aug | +2.9 Aug | +0.7 | +1.2 | 2.4 Q2 |
| South Korea | +5.0 Q2 | +7.4 | +4.9 | +5.2 | +11.2 Aug | +2.3 Sep | +2.5 | +2.3 | 3.2 Aug |
| Taiwan | +5.1 Q2 | na | +4.3 | +4.6 | +10.2 Aug | +3.1 Sep | −1.2 | +1.0 | 3.9 Aug |
| Thailand | +4.4 Q2 | +5.2 | +4.6 | +5.0 | +10.2 Aug | +2.1 Sep | +2.7 | +2.0 | 1.2 Jul |
| Argentina | +8.7 Q2 | +8.8 | +7.7 | +5.7 | +0.1 Aug | +8.6 Sep | +10.4 | +8.6 | 8.5 Q2‡‡ |
| Brazil | +5.4 Q2 | +3.2 | +4.7 | +4.5 | +6.5 Aug | +4.1 Sep | +3.7 | +3.7 | 9.5 Aug‡‡ |
| Chile | +6.1 Q2 | +6.5 | +6.1 | +5.1 | +4.0 Aug | +5.8 Sep | +2.8 | +3.7 | 7.6 Aug†††† |
| Colombia | +6.9 Q2 | +4.4 | +6.6 | +5.8 | +12.4 Jul | +5.0 Sep | +4.6 | +5.6 | 11.1 Jun‡‡ |
| Mexico | +2.8 Q2 | +5.3 | +2.9 | +3.2 | +2.4 Jul | +3.8 Sep | +4.1 | +4.0 | 3.9 Aug‡‡ |
| Venezuela | +8.9 Q2 | na | +6.7 | +4.0 | +11.2 Jun | +15.3 Sep | +15.3 | +18.1 | 8.4 Q2‡‡ |
| Egypt | +7.4 Q1 | na | +7.0 | +7.3 | +10.5 2006 | +8.5 Aug | +8.9 | +8.4 | 9.0 Q1‡‡ |
| Israel | +4.4 Q2 | +6.1 | +5.0 | +4.5 | +3.1 Jul | +1.0 Aug | +2.2 | +0.5 | 7.6 Q2 |
| Saudi Arabia | +4.3 2006§ | na | +4.8 | +5.6 | na | +4.4 Aug | +1.6 | +3.4 | na |
| South Africa | +5.0 Q2 | +4.5 | +4.8 | +5.1 | +5.1 Aug | +6.7 Aug | +5.4 | +6.0 | 25.5 Mar‡‡ |
| **MORE COUNTRIES** Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | | | |
| Estonia | +7.6 Q2 | na | +7.9 | +5.8 | +4.4 Aug | +7.2 Sep | +3.8 | +6.0 | 5.4 Jul |
| Finland | +4.7 Q2 | +3.8 | +4.4 | +2.7 | −0.3 Aug | +2.3 Aug | +1.9 | +2.7 | 6.9 Aug |
| Iceland | +2.5 Q2 | +9.1 | +1.2 | +1.6 | +7.6 2006 | +4.5 Oct | +7.2 | +4.8 | 0.9 Aug‡‡ |
| Ireland | +5.4 Q2 | −5.5 | +4.8 | +3.4 | +13.9 Jul | +4.8 Aug | +4.4 | +4.7 | 4.7 Sep |
| Latvia | +11.1 Q2 | na | +9.6 | +7.5 | +3.0 Aug | +11.4 Sep | +6.0 | +8.8 | 5.6 Jul |
| Lithuania | +8.0 Q2 | +8.2 | +7.8 | +6.9 | na | +7.1 Sep | +3.2 | +4.6 | 2.8 Aug |
| Luxembourg | +5.3 Q2 | +5.3 | +5.2 | +4.3 | −1.0 Jul | +1.9 Aug | +2.8 | +2.2 | 4.2 Aug‡‡ |
| New Zealand | +3.8 Q2 | +3.4 | +3.0 | +3.0 | nil Q1 | +2.0 Q2 | +4.0 | +2.4 | 3.6 Q2 |
| Peru | +8.4 Jul | na | +7.1 | +5.5 | +12.1 Jul | +2.8 Sep | +2.0 | +1.2 | 8.2 Jul‡‡ |
| Philippines | +7.5 Q2 | +7.1 | +6.0 | +5.6 | +0.6 Jul | +2.7 Sep | +5.7 | +2.9 | 7.8 Q3‡‡ |
| Portugal | +1.6 Q2 | +1.7 | +1.8 | +2.1 | +1.0 Aug | +2.1 Aug | +2.9 | +2.4 | 7.9 Q2‡‡ |
| Slovakia | +9.4 Q2 | na | +8.0 | +6.0 | +18.9 Jul | +2.8 Sep | +4.6 | +2.7 | 8.2 Aug |
| Slovenia | +5.9 Q2 | na | +5.6 | +4.6 | +10.1 Aug | +3.5 Sep | +2.5 | +3.0 | 7.6 Jul‡‡ |

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.1% in Aug. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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# *The Economist* commodity-price index

Oct 11th 2007
From The Economist print edition

## *The Economist* commodity-price index

2000=100

| | Oct 2nd | Oct 9th* | % change on one month | % change on one year |
|---|---|---|---|---|
| **Dollar index** | | | | |
| All items | 216.8 | 213.2 | +4.0 | +20.3 |
| Food | 196.7 | 192.0 | +1.7 | +35.9 |
| Industrials | | | | |
| All | 242.9 | 240.7 | +6.5 | +7.6 |
| Nfa† | 165.4 | 165.7 | +4.3 | +22.1 |
| Metals | 285.1 | 281.7 | +7.2 | +3.7 |
| **Sterling index** | | | | |
| All items | 161.1 | 159.0 | +3.8 | +9.8 |
| **Euro index** | | | | |
| All items | 141.7 | 140.0 | +2.1 | +7.1 |
| **Gold** | | | | |
| $ per oz | 728.80 | 737.80 | +4.5 | +28.5 |
| **West Texas Intermediate** | | | | |
| $ per barrel | 80.23 | 80.26 | +2.6 | +37.2 |

*Provisional †Non-food agriculturals.

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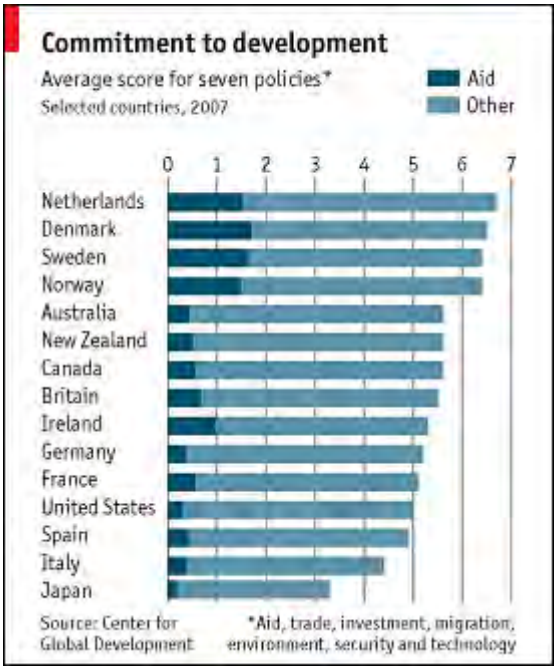
# Commitment to development

Oct 11th 2007
From The Economist print edition

The Netherlands, Denmark, Norway and Sweden have the most effective policies to help poor countries, according to a report by the Center for Global Development, a think-tank in Washington, DC. The report grades 21 rich countries each year on how well they support development in poor countries. Each country is assessed on its policies in seven areas including aid, migration, investment and trade. Denmark and Sweden rank highest on aid-giving. Australia, Canada, New Zealand and America give less aid but are more open to trade with poor nations. Austria and Switzerland are the most accessible countries for migrants from the developing world. Greece and Japan are ranked at the bottom of the overall index.

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# Trade, exchange rates, budget balances and interest rates

Oct 11th 2007
From The Economist print edition

## Trade, exchange rates, budget balances and interest rates

| | Trade balance* latest 12 months, $bn | Current-account balance latest 12 months, $bn | Current-account balance % of GDP 2007† | Currency units, per $ Oct 10th | Currency units, per $ year ago | Budget balance % of GDP 2007† | Interest rates, % 3-month latest | Interest rates, % 10-year gov't bonds, latest |
|---|---|---|---|---|---|---|---|---|
| United States | −818.7 Jul | −793.2 Q2 | −5.6 | – | – | −1.6 | 4.72 | 4.64 |
| Japan | +98.1 Aug | +197.5 Aug | +4.6 | 117 | 120 | −2.5 | 0.73 | 1.72 |
| China | +244.8 Aug | +249.9 2006 | +10.7 | 7.51 | 7.91 | −0.7 | 3.86 | 4.73 |
| Britain | −160.4 Aug | −86.6 Q2 | −3.2 | 0.49 | 0.54 | −2.7 | 6.20 | 5.00 |
| Canada | +47.9 Jul | +21.9 Q2 | +1.8 | 0.98 | 1.14 | 0.6 | 3.97 | 4.44 |
| Euro area | +29.2 Jul | +11.2 Jul | +0.2 | 0.71 | 0.80 | −0.7 | 4.75 | 4.35 |
| Austria | +1.2 Jul | +12.3 Q2 | +2.9 | 0.71 | 0.80 | −0.5 | 4.75 | 4.44 |
| Belgium | +17.6 Jul | +14.4 Jun | +2.2 | 0.71 | 0.80 | −0.1 | 4.82 | 4.47 |
| France | −40.8 Aug | +15.8 Jul | −1.2 | 0.71 | 0.80 | −2.4 | 4.75 | 4.44 |
| Germany | +228.1 Jul | +196.9 Aug | +5.4 | 0.71 | 0.80 | 0.4 | 4.75 | 4.35 |
| Greece | −50.5 Jul | −36.7 Jul | −10.5 | 0.71 | 0.80 | −2.4 | 4.75 | 4.62 |
| Italy | −16.3 Jul | −49.4 Jul | −2.4 | 0.71 | 0.80 | −2.5 | 4.75 | 4.59 |
| Netherlands | +48.7 Jul | +53.5 Q2 | +7.9 | 0.71 | 0.80 | −0.6 | 4.75 | 4.43 |
| Spain | −123.8 Jul | −122.3 Jun | −9.0 | 0.71 | 0.80 | 1.7 | 4.75 | 4.43 |
| Czech Republic | +3.1 Aug | −4.5 Jul | −3.8 | 19.4 | 22.5 | −4.0 | 3.52 | 4.48 |
| Denmark | +4.2 Aug | +4.3 Aug | +1.5 | 5.26 | 5.94 | 3.8 | 4.90 | 4.42 |
| Hungary | −1.7 Aug | −6.8 Q2 | −5.2 | 176 | 213 | −6.0 | 7.43 | 6.58 |
| Norway | +53.3 Aug | +54.6 Q2 | +14.2 | 5.43 | 6.72 | 18.9 | 5.63 | 4.95 |
| Poland | −10.8 Jul | −14.6 Jul | −3.3 | 2.65 | 3.11 | −2.2 | 5.09 | 5.69 |
| Russia | +120.5 Aug | +73.5 Q3 | +6.8 | 24.9 | 26.9 | 3.0 | 10.00 | 6.31 |
| Sweden | +18.1 Aug | +29.7 Q2 | +6.9 | 6.46 | 7.38 | 2.4 | 3.69 | 4.35 |
| Switzerland | +11.0 Aug | +98.4 Q2 | +16.4 | 1.18 | 1.27 | 0.3 | 2.81 | 2.96 |
| Turkey | −56.4 Aug | −33.2 Aug | −7.3 | 1.19 | 1.49 | −2.8 | 17.77 | 7.00§ |
| Australia | −13.0 Aug | −47.1 Q2 | −5.7 | 1.11 | 1.34 | 1.3 | 6.88 | 6.24 |
| Hong Kong | −20.6 Aug | +25.3 Q2 | +10.9 | 7.76 | 7.79 | 1.8 | 5.20 | 4.13 |
| India | −70.7 Aug | −9.7 Q2 | −1.6 | 39.3 | 45.7 | −3.3 | 7.12 | 8.33 |
| Indonesia | +41.7 Aug | +11.1 Q2 | +2.3 | 9,075 | 9,223 | −1.7 | 8.22 | 6.43§ |
| Malaysia | +28.7 Aug | +25.9 Q1 | +13.8 | 3.37 | 3.70 | −3.2 | 3.62 | 5.16§ |
| Pakistan | −13.8 Sep | −6.8 Q1 | −4.5 | 60.7 | 60.6 | −4.6 | 9.78 | 8.09§ |
| Singapore | +38.1 Aug | +41.6 Q2 | +25.7 | 1.46 | 1.59 | 0.3 | 2.45 | 2.82 |
| South Korea | +20.1 Sep | +8.1 Aug | +0.4 | 916 | 958 | 0.5 | 5.34 | 5.51 |
| Taiwan | +14.6 Sep | +28.3 Q2 | +6.3 | 32.6 | 33.3 | −2.0 | 2.60 | 2.80 |
| Thailand | +10.2 Aug | +10.9 Aug | +3.5 | 34.2 | 37.5 | −1.9 | 3.55 | 4.40 |
| Argentina | +10.2 Aug | +7.4 Q2 | +3.5 | 3.16 | 3.11 | 1.5 | 12.63 | na |
| Brazil | +43.1 Sep | +10.6 Aug | +0.7 | 1.80 | 2.15 | −1.8 | 11.18 | 6.16§ |
| Chile | +24.1 Sep | +8.3 Q2 | +3.3 | 497 | 537 | 8.0 | 6.00 | 5.25§ |
| Colombia | −1.5 Jun | −4.8 Q2 | −3.0 | 1,971 | 2,389 | −0.2 | 8.42 | 6.08§ |
| Mexico | −1.2 Aug | −7.0 Q2 | −1.0 | 10.8 | 11.0 | 0.1 | 7.21 | 7.82 |
| Venezuela | +23.8 Q2 | +20.4 Q2 | +8.1 | 2,147 | 2,871 | −2.6 | 11.13 | 6.55§ |
| Egypt | −14.1 Q1 | +3.1 Q1 | +2.3 | 5.56 | 5.74 | −5.5 | 7.29 | 5.39§ |
| Israel | −9.0 Aug | +7.8 Q2 | +3.4 | 4.03 | 4.27 | −0.9 | 4.07 | 5.13 |
| Saudi Arabia | +146.6 2006 | +98.9 2006 | +23.3 | 3.73 | 3.75 | 18.7 | 5.07 | na |
| South Africa | −9.6 Aug | −17.4 Q2 | −6.3 | 6.86 | 7.70 | 0.5 | 10.40 | 8.18 |
| **MORE COUNTRIES** | Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | |
| Estonia | −4.0 Jul | −3.1 Jul | −14.7 | 11.0 | 12.5 | 3.1 | 5.29 | na |
| Finland | +12.5 Jul | +12.3 Jul | +6.2 | 0.71 | 0.80 | 4.2 | 4.61 | 4.42 |
| Iceland | −1.9 Sep | −3.7 Q2 | −16.7 | 60.4 | 68.7 | 3.7 | 13.77 | na |
| Ireland | +36.2 Jul | −10.5 Q2 | −5.1 | 0.71 | 0.80 | 1.0 | 4.75 | 4.41 |
| Latvia | −7.1 Aug | −6.0 Jul | −22.2 | 0.50 | 0.55 | nil | 11.42 | na |
| Lithuania | −6.5 Aug | −4.3 Jul | −12.9 | 2.44 | 2.75 | −0.5 | 5.81 | na |
| Luxembourg | −5.9 Jul | +4.5 Q1 | na | 0.71 | 0.80 | 0.3 | 4.75 | na |
| New Zealand | −4.5 Aug | −9.3 Q2 | −8.2 | 1.31 | 1.51 | 4.8 | 7.15 | 6.38 |
| Peru | +8.8 Jul | +2.8 Q2 | +1.9 | 3.02 | 3.24 | 0.4 | 4.90 | na |
| Philippines | −3.8 Jul | +6.4 Jun | +5.1 | 44.2 | 50.0 | −1.1 | 6.81 | na |
| Portugal | −23.4 Jul | −17.8 Jul | −8.6 | 0.71 | 0.80 | −3.2 | 4.75 | 4.57 |
| Slovakia | −2.8 Jul | −4.2 Jun | −4.5 | 23.7 | 29.4 | −2.9 | 4.10 | 4.62 |
| Slovenia | −2.4 Aug | −1.4 Jul | −3.0 | 0.71 | 0.80 | −1.2 | na | na |

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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# Markets

Oct 11th 2007
From The Economist print edition

## Markets

| | Index Oct 10th | % change on one week | % change on Dec 29th 2006 in local currency | % change on Dec 29th 2006 in $ terms |
|---|---|---|---|---|
| United States (DJIA) | 14,078.7 | +0.8 | +13.0 | +13.0 |
| United States (S&P 500) | 1,562.5 | +1.5 | +10.2 | +10.2 |
| United States (NAScomp) | 2,811.6 | +3.0 | +16.4 | +16.4 |
| Japan (Nikkei 225) | 17,177.9 | –0.1 | –0.3 | +1.5 |
| Japan (Topix) | 1,658.2 | –0.4 | –1.4 | +0.4 |
| China (SSEA) | 6,058.6 | +4.0 | +115.2 | +123.6 |
| China (SSEB, $ terms) | 373.7 | +1.7 | +176.4 | +187.2 |
| Britain (FTSE 100) | 6,633.0 | +1.5 | +6.6 | +11.3 |
| Canada (S&P TSX) | 14,276.2 | +1.8 | +10.6 | +31.0 |
| Euro area (FTSE Euro 100) | 1,403.6 | +0.9 | +9.8 | +17.9 |
| Euro area (DJ STOXX 50) | 4,442.6 | +0.5 | +7.8 | +15.8 |
| Austria (ATX) | 4,795.9 | +2.3 | +7.4 | +15.4 |
| Belgium (Bel 20) | 4,510.6 | +3.0 | +2.8 | +10.4 |
| France (CAC 40) | 5,838.5 | +0.6 | +5.4 | +13.2 |
| Germany (DAX)* | 7,986.6 | +0.4 | +21.1 | +30.0 |
| Greece (Athex Comp) | 5,236.2 | +1.7 | +19.2 | +28.0 |
| Italy (S&P/MIB) | 40,913.0 | +1.2 | –1.3 | +6.1 |
| Netherlands (AEX) | 554.6 | +2.6 | +12.0 | +20.3 |
| Spain (Madrid SE) | 1,627.6 | +0.7 | +4.7 | +12.4 |
| Czech Republic (PX) | 1,881.0 | +2.5 | +18.4 | +27.3 |
| Denmark (OMXCB) | 491.0 | +1.9 | +15.8 | +24.4 |
| Hungary (BUX) | 27,790.5 | –0.9 | +11.9 | +20.9 |
| Norway (OSEAX) | 567.9 | +1.0 | +13.0 | +29.7 |
| Poland (WIG) | 62,967.0 | +3.3 | +24.9 | +37.0 |
| Russia (RTS, $ terms) | 2,143.7 | +2.4 | +5.7 | +11.5 |
| Sweden (Aff.Gen) | 394.0 | +1.8 | +7.9 | +14.3 |
| Switzerland (SMI) | 9,182.3 | +1.0 | +4.5 | +8.1 |
| Turkey (ISE) | 57,418.0 | +6.0 | +46.8 | +75.2 |
| Australia (All Ord.) | 6,744.6 | +1.2 | +19.5 | +35.9 |
| Hong Kong (Hang Seng) | 28,569.3 | +4.0 | +43.1 | +43.5 |
| India (BSE) | 18,658.3 | +4.5 | +35.3 | +52.4 |
| Indonesia (JSX) | 2,591.5 | +5.7 | +43.5 | +42.2 |
| Malaysia (KLSE) | 1,376.9 | +0.7 | +25.6 | +31.3 |
| Pakistan (KSE) | 14,486.1 | +3.1 | +44.3 | +44.7 |
| Singapore (STI) | 3,814.5 | +1.6 | +27.8 | +33.8 |
| South Korea (KOSPI) | 2,041.1 | +1.3 | +42.3 | +44.4 |
| Taiwan (TWI) | 9,639.8 | –0.6 | +23.2 | +23.2 |
| Thailand (SET) | 875.1 | +2.9 | +28.7 | +36.1 |
| Argentina (MERV) | 2,277.4 | +1.0 | +8.9 | +5.7 |
| Brazil (BVSP) | 63,197.0 | +5.2 | +42.1 | +68.3 |
| Chile (IGPA) | 15,158.3 | +2.4 | +22.5 | +31.2 |
| Colombia (IGBC) | 10,541.7 | –0.2 | –5.6 | +7.3 |
| Mexico (IPC) | 32,129.4 | +3.0 | +21.5 | +21.3 |
| Venezuela (IBC) | 38,341.8 | +2.2 | –26.6 | +14.3 |
| Egypt (Hermes) | 78,561.3 | +2.1 | +28.2 | +31.8 |
| Israel (TA-100) | 1,154.6 | +2.4 | +25.3 | +31.1 |
| Saudi Arabia (Tadawul) | 7,912.5 | –0.2 | –0.3 | +0.2 |
| South Africa (JSE AS) | 31,198.7 | +1.5 | +25.2 | +28.6 |
| Europe (FTSEurofirst 300) | 1,589.5 | +1.2 | +7.1 | +15.1 |
| World, dev'd (MSCI) | 1,667.3 | +1.2 | +12.4 | +12.4 |
| Emerging markets (MSCI) | 1,271.4 | +3.1 | +39.3 | +39.3 |
| World, all (MSCI) | 422.6 | +1.5 | +14.9 | +14.9 |
| World bonds (Citigroup) | 697.8 | –0.1 | +6.0 | +6.0 |
| EMBI+ (JPMorgan) | 426.2 | +0.4 | +4.7 | +4.7 |
| Hedge funds (HFRX) | 1,338.2 | +0.7 | +4.9 | +4.9 |
| Volatility, US (VIX) | 16.7 | 18.8 | 11.6 | (levels) |
| CDSs, Eur (iTRAXX)† | 31.3 | –12.8 | +34.3 | +44.3 |
| CDSs, N Am (CDX)† | 52.5 | –8.9 | +56.9 | +56.9 |
| Carbon trading (EU ETS) €‡ | 22.2 | +2.4 | +21.8 | +30.8 |

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank

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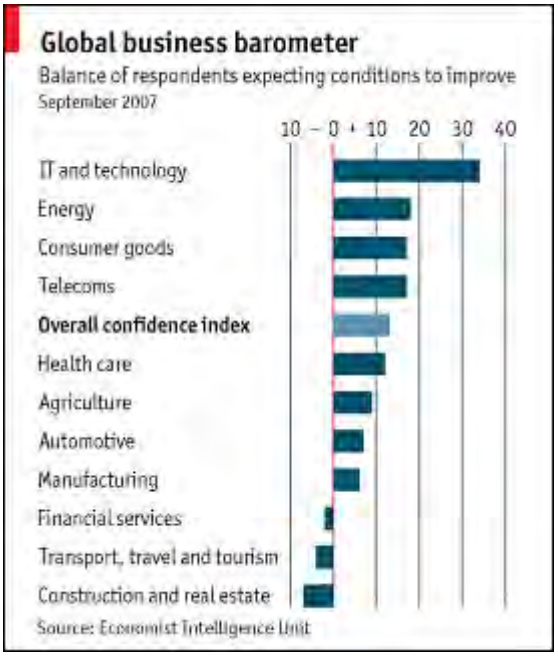
# Global business barometer

Oct 11th 2007
From The Economist print edition

Confidence levels in the business world are understandably brittle, according to the results of the first global business barometer, a quarterly confidence survey of more than 1,000 executives conducted for *The Economist* by the Economist Intelligence Unit, its sister company. The overall confidence index, which shows how many more executives think things will improve than deteriorate, stood at +13 last month (the sunniest possible score is +100, the gloomiest -100). There are striking sectoral variations. Nerves are stretched tighter in the financial services and construction industries. Spirits in other industries, such as information technology, remain remarkably buoyant, at least for the moment.

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